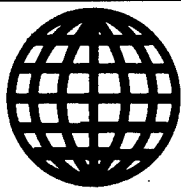


JPRS-CAR-90-060  
6 AUGUST 1990



**FOREIGN  
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# ***JPRS Report***

# **China**

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## GENERAL

### Rise, Future Impact of Regional Economic Groups

90CM0154A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese No 2, 13  
Apr 90 pp 30-34, 40

[Article by Wang Hexing (3769 0735 5281): "The Rise and Impact of Regional Economic Groupings"]

[Text] The formation of regional economic groupings is a new issue which has appeared in world economic development. The following factors are spurring the formation of regional economic groupings: The world's economic activities are becoming globalized; the scientific and technological revolution is causing production to become internationalized; protectionism is growing more virulent all the time; the international arms race is shifting toward rivalry focused on overall national power. The formation of regional economic groupings touches upon the economic policies of every country, and it affects future of world politics and economics.

The formation of regional economic groupings is a new phenomenon which has appeared in the course of postwar worldwide economic development. Since the beginning of the 1980's, the formation of regional economic groupings on each of the continents has accelerated significantly, attracting serious attention from all sectors of the international community. In response, the governments of various countries have rushed to formulate appropriate policies and carry out strategic readjustments. The formation of regional economic groupings is one of the most complex issues in international economic relations. It touches upon the economic and foreign policies of every country and it affects the future course of world politics and economics. Therefore, an exploration into the issue of the formation of regional economic groupings will help in forecasting worldwide political and economic developments in the 1990's.

#### I. The Meaning of "the Formation of Regional Economic Groupings"

Economists also refer to the formation of regional economic groupings as "economic integration." The famous economist Bei-la Ba-la-sa [6296 2139 1572 2139 5646] feels that integration involves combining various parts (countries) into a composite whole. Two or more countries should not only allow free flow of commodities and various production factors across their borders, but they must also coordinate their policies to a certain extent in order to eliminate any possible discriminatory practices that may arise from the economic policies of various countries. As for the difference between economic integration and economic cooperation, Bei-la Ba-la-sa believes that there is both a qualitative and a quantitative distinction between these two concepts. "Economic cooperation" refers to efforts by different countries to reduce discriminatory practices in every economic area, while "integration" means to eliminate all formally discriminatory practices. From this it is apparent that

regional economic integration (that is, the formation of regional economic groupings) is not the same as regular economic cooperation. It involves two or more countries within a given geographical region that form an economic grouping (organization) by means of a treaty. They establish free flow of products and production factors, and they establish a supranational organization which implements compulsory regulations and policies and spurs regional specialization and division of labor in order to achieve mutually beneficial relations between the member nations and to attain economies of scale.

The formation of regional economic groupings is divided into the following four stages (from incipient to mature) based on the degree of free flow of products and factors of production: 1) Free trade regions. The nations participating in a regional economic grouping lower tariff barriers among themselves, gradually eliminating tariff restrictions, but they still retain their systems of trade protection vis-a-vis nonmember nations. 2) Tariff alliances. In addition to establishing free trade between its member nations, a regional economic grouping establishes common tariff barriers against nonmember nations. 3) Common markets. The member nations not only implement free trade of commodities, they also implement free trade of the various production factors, including funds and labor. 4) An economic community. After establishing a common market, a supranational economic organ is set up, unified economic policies are formulated in the areas of fiscal policy and banking, specialization and division of labor are set up in different sectors of the various national economies, and economies of scale are developed.

#### II. The Background Leading to the Formation of Regional Economic Groupings

After World War II, the United States used its economic and military power to occupy a position of world hegemony. However, after its wars of invasion against Korea and Vietnam, the economic and military power of the United States gradually declined. In the military arena the United States was seriously challenged by the Soviet Union, and in the economic arena there was intense competition from Japan and Western Europe. The Third World became an important force which influenced the world's historical development. The world political and economic situation is presently shifting from a standoff between two hegemony to a multipolar situation. The rise and growth of regional economic groupings is a reflection of the world's multipolarity.

The following factors are the primary catalysts behind the formation of regional economic groupings:

**A. Economic activities around the world are becoming globalized.** The world's economic structure underwent a series of fundamental changes after World War II, one of which was globalization. Whether in the area of trade, banking, or production, countries everywhere have undergone a process of mutual infiltration, and their interdependence has grown. Trade is the most active

element in the current world economy. Every country is throwing more and more products into international exchange. As a result, international trade is growing at a faster rate than production is, and the percentage of gross national product accounted for by international exchange of commodities, labor, and services has risen continuously. Within this category, the growth rate of trade in services (including insurance, banking, communications, transportation, and tourism) has exceeded that for international exchange of commodities, and has become an important source of foreign exchange income for all countries. At the same time, financial capital is becoming more internationalized all the time. The participation of banking institutions is indispensable whether one needs to raise funds for foreign trade, invest in production, or establish an international affiliation or merger. Statistics indicate that total international circulation of funds has reached \$75 trillion, which far exceeds the volume of worldwide trade in commodities and labor and services. The number of types of international currencies is rising constantly. Techniques and methods of raising funds internationally are constantly being improved. International banks, following upon the heels of international companies, are stretching their tentacles into every corner of the world. Two-way capital flows between countries are growing daily. The world financial market has become linked into a network that operates 24 hours a day. Every country's economy is becoming more and more wrapped up in the unified world market. The ability of many countries (especially medium-sized and small countries) to participate in the world market is limited because they are isolated and weak. These countries urgently need to link up with the power of other nations in order to win some breathing room in intense worldwide economic competition, and to strengthen their position and influence in the world economy.

**B. The worldwide scientific and technological revolution is pushing forces of production toward internationalization.**

A lot of steps go into high-technology products—basic research, applied research, technological development, product testing, intermediate production, large-batch production—and huge expenditures are incurred. Competition is stiff, and a lone enterprise or industry cannot easily handle it. The more science advances, the greater are the obstacles it faces. Countries must band together to overcome these obstacles. Under the impulse of the scientific and technological revolution, the internationalization of productive forces has been greatly accelerated. Modern technology requires specialized production. Optimum enterprise scale, the economic benefits of batch production, and the upgrading of products all require specialization and coordination. Without specialization and a division of labor, it would be impossible even for an economically developed power to complete an entire production process on its own. It would not be economically feasible, either. The internationalization of the forces of production (particularly the internationalization of high technology products with

complex production technology) has led directly to international division of labor in the technology process. In today's world, participation in the international division of labor is a prerequisite for normal production. It could also be said that without cooperation among different countries it is impossible to carry out normal production under many circumstances. For example, the U.S. Boeing 747 is composed of 4.5 million parts and components, and these parts and components are produced and supplied by 1,600 different companies in the United States and around the world. The narrowness of domestic markets and the limitations of any single country in terms of financial, material, and human resources, on the one hand, conflict in an ever sharper manner with the specialization and internationalization of large-scale production, on the other. This type of development of the forces of production imposes an objective requirement to span national borders and create linkages. This is especially true for medium-sized and small countries (whether they are developed or developing).

**C. Protectionism grows more intense by the day.** As the position of the United States in the world economy has dropped, a serious imbalance in world trade has appeared. The U.S. trade deficit has expanded annually, while Japan and West Germany have had trade surpluses year after year. Competition in the international marketplace has grown more and more intense, and protectionism has grown increasingly prevalent. In particular, protectionism has gradually shifted from tariff barriers to nontariff barriers. Statistics indicate that there are over 1,000 types of nontariff trade barrier. Most of the protectionist measures taken by developed countries are directed against developing countries. In order to protect their own weak, small national economies, developing countries have also adopted protectionist measures. Protectionism is growing more and more intense, and is having an impact on the entire world. The "principle of free and fair competition" espoused by the General Agreement on Tariffs and Trade [GATT] has been damaged, and the international multilateral trade system is playing less and less of a role. In the face of intense competition in the international marketplace, countries with common interests are willing to unite and form regional economic groupings which, internally, reduce tariffs and open markets, while, externally, they resist competition from nonmember countries, thereby strengthening the international competitiveness of their own members.

**D. The international arms race has turned into a contest of overall national power.** Since World War II, the United States and the Soviet Union have been engaged in an uneasy standoff and intense competition. They have carried out cold war policies and have organized military blocs. As the arms race has heightened, military expenditures have grown larger and larger. However, the arms race has not resulted in the defeat of either party; on the contrary, the economic power of both parties has been reduced vis-a-vis the rest of the world. The economies of

Japan, Western Europe, and even the newly industrialized countries have grown by leaps and bounds, delivering a serious challenge to the United States and the Soviet Union. The new industrial revolution, characterized by the development of high technology and the establishment of high-technology industries, is proceeding apace, exerting an ever-increasing influence upon world politics and economics. In order to adapt to changing international conditions, all countries, whether developed capitalist countries or socialist countries, are carrying out economic reforms and strategic readjustments. They are abandoning military standoffs in favor of a rivalry focused on overall national power, at the core of which is high technology. The contest for overall national power not only will influence the development of forces of production, it will also bring about deep changes in every nation's economy, science and technology, management, education, and labor systems and structures. In order to position themselves advantageously in this contest, every nation, developed or developing, is searching for regional organizations for economic cooperation. This is the result of the efforts by every nation in the world to regroup itself within the new conditions that exist today.

### III. Organizations of Regional Economic Cooperation

In terms of concrete organizations, the formation of regional economic groupings has meant the establishment of organizations for regional economic cooperation. There are currently three types of organizations in the world for regional economic cooperation. They are categorized on the basis of the various models of national economic development.

**A. Organizations for economic cooperation among developed countries.** The largest organization for economic cooperation among developed nations is the European Economic Community [EEC], which is composed of 12 member nations. As early as the 1950's, the nations of Western Europe began moving along the path toward economic union. The EEC has established a tariff union, implemented a common agricultural policy, set up a European monetary system, and has laid the groundwork for the establishment in 1992 of a "large, unified market" in which commodities, services, persons, and funds circulate in complete freedom. After this common market has been established, the member nations will eliminate various trade barriers between their countries, coordinate legislation and taxes, unify industrial standards, and open up the services market. Toward this end, the EEC proposed 300 measures as well as concrete steps by which to achieve these measures, and an actual timetable in the "white paper" which it formulated in 1985. These measures included elimination of border checkpoints and procedures between member nations, unrestricted transport, and the elimination of impediments to the circulation of financial resources, services, and capital as well as formal obstacles in other areas. Since the "white paper" was issued, nearly one-third of the proposed measures have been implemented. Another organization for economic cooperation in the European

region—the European Free Trade Association—was established in 1966 and is now composed of six nations in northern and central Europe. The association is actually a very loose economic organization. It succeeded in 1966 in having its members lower mutual tariffs on industrial products and in eliminating import restrictions, but the members retained the right to freely impose tariffs against the commodities of third countries and to formulate their own trade policies. The member nations regularly discuss important economic issues, but they do not attempt to achieve any type of unified policy. The association signed a free-trade agreement with the EEC in 1972, and announced the establishment of a free trade region. The two organizations released the "Luxembourg Declaration" in 1984 in which they proposed the establishment of a "European economic region." The member nations of the association are presently searching for a way to join the large European market by strengthening discussion and cooperation, and by relying upon its own organizational strength. The United States and Canada are the largest trading partners in the world, and they are also neighbors on the North American continent. Faced with the approaching establishment of a large, unified market in Europe, the United States and Canada signed the "U.S.-Canadian Free Trade Agreement" in 1988 after a year and a half of negotiation. This agreement took effect on 1 January 1989 and officially established the U.S.-Canadian free trade region. The terms of the agreement call for all tariffs on commodity trade between the two countries to be eliminated in three steps; higher limits on the amount of U.S. capital which can be used to buy, directly or indirectly, Canadian companies; gradual accordance of treatment as citizens to the other country's citizens who provide services to the other country; and the establishment of an arbitration organization which has final authority over trade disputes between the two countries. Among the three organizations for economic cooperation among developed nations, the EEC was established earliest, includes the greatest number of member nations, involves the highest level of cooperation, and is currently moving toward the establishment of a large market. The U.S.-Canadian Free Trade Agreement has been in effect for only a little more than a year, and it is only a bilateral agreement. The idea for a "North American Common Market" which the United States has floated is fraught with difficulties.

**B. Organizations for economic cooperation among developing nations.** Since the 1960's, the countries of Asia, Africa, and Latin America have set up many organizations for regional economic cooperation within their respective geographical areas. In Asia there are the Association of Southeast Asian Nations [ASEAN], the South Asia Association for Regional Cooperation [SAARC], the Gulf Cooperation Council, and the Arab Cooperation Council. In Africa there are the Arab Magreb Union, the Economic Community of West African States [ECOWAS], the Economic Community of

Central African States, the Southern African Development Coordination Conference [SADCC], and the Preferential Trade Area for Eastern and Southern Africa. In Latin America there are the Latin American Integration Association, the Central American Common Market, the Caribbean Common Market [CACM], the Andes Group, and the Brazilian-Uruguayan-Argentine integration agreements. These organizations mainly play the following roles: They make effective use the natural resources of each country, stimulate and strengthen regional economic integration, accord favorable terms for trade between the member nations, provide mutual financial assistance, and they promote and establish cooperation in industry, science, and technology. During the past 20 years some organizations for regional economic cooperation have become paralyzed or suspended operations, and some organizations have even disbanded. This has been due to political and economic causes, or because of goals that were too high and difficult to achieve, or because improper actions were taken and conflicts have continually arisen. Many organizations have carried out rectification, consolidation, or expansion in the 1980's. In recent years, formation of regional economic groupings by developing countries has accelerated as these countries have been faced with the challenge of Western Europe's "big unified market" and North America's "free trade region." In short, organizations for regional economic cooperation in Asia, Africa, and Latin America are still in the formative stages, and they are still searching for the proper form of cooperation.

**C. Organizations for economic cooperation among socialist countries.** The Council for Mutual Economic Assistance (CEMA) is composed primarily of six socialist countries—the Soviet Union and five East European nations (Mongolia, Cuba, and Vietnam have also joined, since their social systems are the same). CEMA was established for the purpose of carrying out mutual economic assistance, technological cooperation, and to exchange experience within a context of equality and mutual benefit in order to promote economic development in the member nations. Since the 1970's, the focus of CEMA has shifted from trade to economic integration. The object of the "Comprehensive Program for Integration of Socialist Economies" is to make fuller use of scientific and technological advances to gradually form an integrated economic whole. The Soviet Union and the socialist countries of Eastern Europe have formed a preliminary network linking trade, production, and science and technology. The operating mechanism of CEMA is mainly an extension of the highly centralized planned economic model of these countries, so specialization, division of labor, and product exchange among these countries are not carried out on the basis of the market principle, but on the basis of the planning principle. In 1987, CEMA proposed the establishment of a common market, but there are still some problems within CEMA which urgently require resolution. Reform paths are presently being explored. Conditions in

Eastern Europe changed drastically in late 1989, and for this reason the future of CEMA is unclear.

#### **IV. Impact Upon the World's Economic and Political Situation**

Organizations for regional economic cooperation have appeared within the context of globalization of the world economy and a shift toward multipolarity in international political relations. The formation of regional economic groupings will inevitably exert a far-reaching influence upon the world economy and upon international economic and political relations.

**A. It will promote further development of the world economy and trade.** The world economy has been developing rapidly since World War II. Particularly under the impulse provided by the worldwide scientific and technological revolution, relations of production based mainly upon bilateral regulation of trade have been unable to meet the demands posed by the internationalization of the forces of production. Therefore it will take a large, supranational force to meet the requirements of the new forces of production for funds, markets, technology, natural resources, and economies of scale. The formation of regional economic groupings is in reality a great readjustment whereby the international relations of production are being adapted to the forces of production. Regional economic groupings are being established in order to achieve economies of scale and division of labor within a given region, and to enable more rational allocation and utilization of funds, technology, labor, and natural resources, thereby cutting circulation expenditures, lowering production costs, and raising the competitiveness of products. Once regional economic integration has been achieved, production can be distributed more rationally, the division of labor can further deepen, and the time between research and development of new technologies and actual production can be greatly reduced. This will cause labor productivity to zoom upwards. It is estimated that the overall economic benefits accruing from a large, unified market in the EEC will include adding 4.5-7 percentage points to the growth of domestic gross national products; a drop of 4.5-6 percentage points in the inflation rate; and the creation of 1.8-5.0 million new jobs. Economic development within the various regional economic groupings will inevitably strengthen the vitality of the world economy. Trade within the regional economic groupings will grow rapidly as member nations lower and even eliminate tariffs and nontariff trade barriers. The overall volume of economic and trade activity within the various economic groupings will rise, and the absolute volume of trade between these groupings and nonmember nations may increase, too. The favorable conditions enjoyed by members of an economic grouping serve as a barrier against nonmembers, and undeniably increase the difficulty involved in trade between member and nonmember nations. For example, standards set by the EEC for electronic equipment and foods make trade with nonmember nations more difficult, but this will spur nations outside of this economic grouping to adapt to

this market's requirements for products and technology, and they will work hard to raise the competitiveness of their products, thereby raising international trade to a new level.

**B. The formation of regional economic groupings will push the world economy toward globalization.** Regional economic groupings have appeared as a result of the globalization of the world economy. When economic groupings achieve integration, restrictions on investment activities within these groupings will be lifted, thereby accelerating the concentration and accumulation of funds. This will be demonstrated most notably by mergers and expansions by multinational corporations, and increasing closeness of links between multinational corporations. Since the beginning of the 1980's, enterprises across Europe have engaged in a merger frenzy for the sake of greater economies of scale. Statistics show that enterprise mergers within the EEC were 27 percent more numerous in 1987 than 1986, and the number jumped up another 45 percent in 1988. The speed of enterprise mergers has increased, and the scope has grown larger and larger. A total of 1 billion European Currency Units [ECU's] was spent on mergers in 1988, or 70 percent of all ECU's. Among organizations for regional economic cooperation among developing nations, multinational corporations have already begun to form among the member nations. In the Andes Pact, for example, there are 20 such corporations. Under the influence of the formation of regional economic groupings, the number of mergers and takeovers among multinational corporations inside and outside of the groupings has skyrocketed. West European investment has flowed toward the United States, and U.S. investment has flowed toward Western Europe. More than 1,400 Japanese corporations and enterprises have already been set up in the EEC nations. Some of the more developed among the developing countries and territories (such as South Korea and Brazil) have even begun to invest in Western Europe by buying and setting up factories. As the formation of regional economic groupings deepens, a ubiquitous interlocking of different countries has begun to appear.

**C. The formation of regional economic groupings has led to changes in international economic relationships.** The world's capitalist economy now rests on three bases: the United States, Europe, and Japan. With global economic competition intensifying and protectionism spreading, the United States, Europe, and Japan are all working to entice their neighbors into economic groupings and forming their separate spheres of influence in order to gain the upper hand in the world marketplace. The EEC countries made the first move by announcing the establishment of a large, unified market. The United States and Canada then signed an agreement setting up a free trade region. In order to compete, Japan has aggressively sought to set up an "economic circle" in Asia. Economic development in the many Third World countries began late. Their economic power is relatively insignificant, and their position and influence in the world economy

are relatively minor. In the face of an international economic situation that grows more hostile every day, efforts by the nations of Asia, Africa, and Latin America to establish regional economic groupings are accelerating. The Arab Magreb Union and the Arab Cooperation Council were established one after another in early 1989. While it is true that these measures were taken in response to the requirements of economic development in these countries, it was more directly a response to the challenge of the large, unified market which will be formed in Europe in 1992. As organizations for regional economic cooperation have formed, linkages between various economic groupings have begun to grow stronger. The EEC and CEMA have signed a joint declaration establishing formal relations. The EEC has been holding regularly scheduled joint conferences with economic groupings formed of developing nations, such as ASEAN and the Andes Group. In its relations with the nations of northern Africa, the EEC has clearly stated that in the future it will maintain contact only with the Arab Magreb Union and not with each nation individually. In a meeting of its heads of state in 1989 the Arab Cooperation Council discussed the issues of mutual coordination and lateral cooperation with two other Arab economic groupings (the Arab Magreb Union and the Gulf Cooperation Council). The momentum of events indicates that international economic relations in the future will revolve primarily around regional economic groupings. In other words, international economic competition will shift from a battle for supremacy between economic powers toward a duel between regional economic groupings. Negotiations between nations will give way to economic coordination between different economic groupings.

**D. The formation of regional economic groupings has accelerated the development of multipolar world politics.** The fundamental reality of world politics after World War II was the struggle between the United States and the Soviet Union for hegemony. After years of intense confrontation and its accompanying arms race, the economic power of the United States and the Soviet Union has been seriously eroded, and their ability to control their respective alliances has continuously declined. In the West, the prior dominance of the United States has been replaced by an equal partnership between the United States, Europe, and Japan. The Third World has ascended the world stage as a new and independent political power, and is winning an ever stronger voice in world affairs. World politics are becoming multipolar. The formation of regional economic groupings is the economic base upon which multipolar world politics rest, and the multipolarity of world politics is the necessary result of the formation of regional economic groupings. Organizing regional economic groupings has become an important method by which the developed nations engage in competition, and it is an important path by which developing nations have sought economic development within the context of North-South relations. Organizations for regional economic cooperation have generally started out with an orientation toward

economic cooperation, shifting later toward political and military cooperation. As the formation of regional economic groupings progresses and U.S. and Soviet control over world affairs weakens, international relations will further move toward multipolarity. The boundaries of regional economic groupings are drawn on the basis of geography, and the formation of regional economic groupings could spur a realignment of nations, which would have a deep impact upon world politics.

The formation of regional economic groupings is the result of the fact that all nations are growing more and more interdependent. Economic powers (in order to compete) and nations whose economies are not developed (in order to survive) are linking up with other nations that have compatible economic and political systems, and forming economic groupings in order to adapt to the demands posed by the internationalization of the forces of production. Of course, it has only been 20 or 30 years since regional economic groupings first began to form. There are still many variables regarding the future formation of regional economic groupings. Practice and exploration are required. This also indicates that the process of the formation of regional economic groupings will include more difficulties and reverses. The formation of regional economic groupings has become an important issue in world political and economic development, and merits serious study.

#### Japan-USSR 'Aid for Territory' Swap Seen Uncertain

90CM0237A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 9, 4 May 90 pp 23-24

[Article by Chen Jiehua (7115 3381 5478): "The Plight of Japan's Northern Territories Still Facing a Mildly Unfavorable Change"]

[Text] In its foreign relations with the Soviet Union, Japan has always maintained the policy that it will not conclude a peace treaty without prior return of the four northern islands. With the economic recovery of Japan and the Soviet Union's increased strategic interest in the Asian-Pacific area, Japan saw that the problem of its northern territories was moving in a direction that was favorable to Japan. Japan's basic assumption was: At some future date, the Soviet Union will find itself in the difficult situation that success and failure of Soviet strategy in the Asian-Pacific area and in its domestic reforms will depend on its ability to successfully and rapidly develop Siberia, because the development of the Soviet Union's western territory is bound to rely more and more on the raw materials and natural resources of Siberia. When the Soviet Union finds itself in this predicament, the Soviet Union will be compelled to relinquish possession of the four northern islands in order to obtain Japan's assistance in the development of Siberia.

As Japan sees these events, the reconciliation between the Soviet Union and the United States and the Soviet Union's relinquishing control of Eastern Europe were

causes for rapturous happiness in Japan, because Soviet-U.S. reconciliation possibly reduced the former military strategic value of the northern territories. At the same time, one may ask if the Soviet Union gives up Eastern Europe, which is like a "large watermelon," why would it not give up the northern islands, which in comparison are like a few "sesame seeds"? At about the same time, some high-ranking Soviet officials have repeatedly suggested various plans to solve the problem of the northern territories, which seems to further justify Japan's assumption.

However, recent events have taken a turn for the worse. First, the United States learned a lesson from the 1970's, when "Japan reaped the profits of U.S.-Soviet reconciliation," so that the United States in its present relations with the Soviet Union pays particular attention to adopt a method of synchronous development of political reconciliation and economic cooperation. The United States has already agreed to have the Soviet Union participate in GATT in the status of an observer, and is prepared to grant the Soviet Union most-favored-nation treatment as of July of this year. Soviet-U.S. economic and trade relations are developing rapidly. U.S. exports to the Soviet Union during the period from January to November 1989 reached \$3.8 billion, an increase of 53 percent over the same period the previous year, while in 1986 the figure had been only \$1.2 billion. Recently, the United States further decided to invest \$47 million in Siberia to build a chemical factory. Last year, U.S. joint ventures in the Soviet Union doubled and redoubled; they rank third only after investments in West Germany and Finland.

Second, the Soviet Union's diplomacy, which now pays little attention to ideologies, but regards actual profits and efficacy as most important, has promoted economic and trade relations between the Soviet Union and such countries and territories as South Korea, Taiwan, Hong Kong, Singapore, and Australia. Because the "four little dragons" of Asia have had capital surpluses in recent years, but dispose of few natural resources, they are faced with the need to restructure their production setup, and their development of Siberia together with the Soviet Union would have very obvious mutual advantages. Because South Korea attaches certain political intentions to the development of economic relations with the Soviet Union, it will with even greater alacrity take advantage of its favorable geographical location to enter into relations with the Soviet Union. In 1989, South Korea had \$700 million worth of trade with the Soviet Union, and it is estimated that this year the figure will exceed \$1 billion. Most recently, Korea's business tycoons, leaders of modern business groups, have visited the Soviet Union with an investment fund of \$1 billion, for which they sought investment opportunities. The South Korean Government also put in an appearance, seeking a share in the development of Siberia's natural gas and timber resources, and has already signed a 30-year agreement with the Soviet Union for the joint exploitation of borderland forest resources, with the

proviso that all logs from this operation will be exported to South Korea. Economic cooperation between South Korea and the Soviet Union has now also expanded to the areas of lumber, coal, natural gas, petroleum, ship building, and chemical products.

Taiwan too does not want to be left behind. It recently invested NT\$600 million [New Taiwan dollars] to promote Taiwan-Soviet economic relations, with the Taiwan Export Federation at the core of this undertaking. In January 1990, Taiwan signed trade agreements with the Soviet Union amounting to a total of \$400 million. Taiwan will provide 100 sets of factory equipment and 20,000 electronic computers and will in return purchase raw materials from the Soviet Union.

At the beginning of this year, Ryzhkov, the chairman of the USSR Council of Ministers, visited Thailand, Australia, and Singapore with a huge trade delegation of 100 persons to expand Soviet relations with the various countries of the Asian-Pacific area.

Exactly at this time, Japan suddenly found out that the Soviet Union, in particular Siberia, has such a powerful fascination for the other countries of the Asian-Pacific area. If this situation is allowed to develop any further, the Soviet Union will possibly not have to rely at all on Japan for the development of Siberia. On the contrary, it will be Japan that may lose the opportunity to penetrate the Soviet market. Among the present 1,400 joint ventures of the Soviet Union, the majority are joint ventures with European and U.S. firms, and only 19 are with Japanese firms. This fact alone testifies that Japan has tied its own hands with its policy of "no economic cooperation before a resolution of the territorial question," and that Japan's economic and trade relations with the Soviet Union are lagging far behind those of Europe and the United States. Irritated by this situation, there is nothing for Japan to do but to speed up its own economic cooperation with the Soviet Union. The question now is only, since the Soviet Union is obtaining economic cooperation needed for the development of Siberia from outside sources, why should the Soviet Union still want to hand over the northern territories?

Japan never thought it would happen, at the very time when things seem to have matured for the return of the northern territories, that this time would also bring forth so many parties scrambling for profits in this area, and that these would precisely be its normal, "friendly associates." Moreover, these "friendly associates" make very clear that assistance for the development of Siberia by Western countries other than Japan would actually ruin the process for the return by the Soviets of the northern territories. The things they did which they should not have done have rendered illusory the return of the northern territories which had formerly appeared as an event that was just round the corner.

### Sixth Round of Vienna Arms Talks Viewed

90WC0076A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 20, 14 May 90 pp 41-42

[Article by Liu Yunfeng (0491 0061 1496): "Talks on Conventional Forces in Europe Encounter New Problems"]

[Text] Dispatch from Vienna Representatives from the 23 member nations of the Warsaw Pact and NATO formally began the Conventional Forces in Europe [CFE] talks in Vienna on 9 March 1989, and they have carried out six rounds of talks to date. The sixth round of talks, which came to a close on 26 April, did not yield any substantive progress, and the Soviet Union and the United States each charged the other side with responsibility for the slow progress. This was in clear contrast to the manner in which earlier rounds were concluded, when major progress was always proclaimed by both sides.

The Soviet Union's chief delegate, Oleg Grinevsky, stated during a press conference on 26 April that, although people had engaged in intense efforts during the sixth round of talks to find solutions, representatives walked away from the negotiating table with increasing frequency, dejected from their inability to obtain consensus. With an embarrassed expression, he said that, as everyone knew, it was intended that a first-phase agreement of the Vienna CFE talks would be signed during the meeting of heads of state that is to take place at the European Security Conference scheduled for this fall, but there was still much work to do. He criticized the negotiators of the NATO nations for failing to carry through on the wish of their political leaders to accelerate the pace of progress of negotiations.

The U.S. chief representative, R. James Woolsey, rejected Grinevsky's criticism in a press conference on the same day, calling upon the Warsaw Pact nations to give a constructive response to a series of proposals offered by NATO. He complained that in the beginning NATO had proposed a simple format limiting negotiations to reductions of tanks, armored vehicles, and artillery, but the Warsaw Pact greatly complicated the negotiations by demanding the inclusion of troops, jet fighters, and combat helicopters.

Not long ago, delegates from East and West participating in the Vienna CFE talks continually exuded optimism, speaking effusively of the "record-breaking pace" of arms reduction negotiations. At that time, practically no one doubted that it would be possible to reach a first-phase agreement this summer or fall. Many people predicted the signing this year of five arms reduction agreements: an agreement between the United States and the Soviet Union on the Strategic Arms Reduction Talks; an agreement for the complete destruction of chemical weapons; a Vienna agreement on the reduction of conventional forces in Europe; an agreement in Vienna by the 35 members of the European Security Conference to establish trust and security measures; and an East-West



Open Skies agreement. However, in just one or two months, people have clearly observed that this optimism is vanishing. Apart from recent relatively major progress in negotiations on the complete destruction of chemical weapons, practically all of the other negotiations have hit upon snags. In Vienna, you never hear about "the record-breaking pace of negotiations" anymore. On the contrary, among negotiators and public opinion in Vienna, there are continuous reports that "the engine of arms reductions has broken down," "negotiations are slowing down," and "experts participating in the negotiations have taken on a sober attitude." Some people not involved in the process have also become nervous. What has happened, after all?

In 1973, the 19 member nations of NATO and the Warsaw Pact began the Mutual and Balanced Force Reductions [MBFR] talks in Vienna, thereby engaging in the first negotiations between the two large military blocs on conventional forces in Europe. However, the two sides quarreled interminably on such issues as the balance of military strength and verification. They negotiated for 15 years without making the slightest progress, and the affair became a marathon negotiating session in the true sense of the term. At the proposal of NATO, on 17 February 1987 outside the extended session of the European Security Conference in Vienna, the 23 member nations of NATO and the Warsaw Pact began preparatory talks for negotiations on conventional arms in Europe (from the Atlantic Ocean to the Ural Mountains). The objective was to replace the MBFR talks with new negotiations on conventional arms in Europe. The preparatory talks continued for nearly two years, and basic consensus was reached regarding the definition of Europe, the types of weapons to be included in the negotiations, and the content and form of the formal negotiations. The preparatory talks ended on 14 January 1989, and the final resolution was appended to the final document of the extended session of the European Security Conference in Vienna, thereby establishing a foundation for negotiations on the reduction of conventional arms in Europe. The MBFR talks came to an end on 2 February 1989.

On 6 March 1989, the foreign ministers of the 23 member nations of NATO and the Warsaw Pact opened the curtain on the CFE talks in Vienna, and all of them stated their principles and proposals. On 9 March, experts from the 23 countries began substantive talks. For a year the two sides have brought up a series of concrete proposals for arms reductions, and one round of negotiations after another has proceeded amidst intense bargaining. The CFE talks have been pushed forward by arms reduction proposals which have been offered on more than one occasion by the Soviet and U.S. heads of state, and in particular by a series of unilateral arms reduction proposals and actions by Gorbachev.

The negotiations have indeed achieved a lot of progress, and both sides have made concessions. Consensus has

been reached or approximated with regard to the geographical definition of Europe, weapons classification, some maximum limits on weapons and personnel, the definition of some weapons systems, and verification methods, and both sides have proposed rough drafts of a first-phase agreement. However, both sides are trying hard to arrive at a result that would be advantageous to themselves, so it is natural that the negotiations have not been all smooth sailing. With regard to the definition of weapons systems, for example, apart from the fact that consensus has been reached on the definition of artillery, no complete consensus has been reached on the definitions of tanks, armored vehicles, fighter jets, or combat helicopters. The Soviet Union has also recently brought forward the issue of converting into civilian products those weapons systems which have been eliminated through reductions, but NATO insists on having them completely destroyed. It has been revealed that only eight pages of the 400-page rough draft of the first-phase agreement have been agreed upon, which is an indication of the difficulty of the negotiations.

Observers here feel that the real reason why the CFE talks have bogged down has nothing to do with these technical questions, but is connected with worries caused by the process of German reunification. The instability caused by the changes in Eastern Europe and the domestic situation in the Soviet Union are also having a negative impact upon the arms reduction negotiations.

The head of the Soviet delegation clearly stated in the press conference after the sixth round of negotiations and in an interview with a reporter from the Austrian newspaper DIE PRESSE that, although the political and military situation that is to follow upon German reunification cannot be decided in the arms reduction negotiations in Vienna, people cannot help but feel very concerned about the outcome of the "two-plus-four" negotiations going on between East and West Germany and the four victors in World War II. He stressed that the process of German reunification must go hand with the process of the European Security Conference if it is to avoid becoming an obstacle to arms reduction. He emphasized that the issue of German reunification is directly linked with the Vienna negotiations on arms reduction, and that people cannot turn a blind eye to the possibly undesirable military outcome that could follow German reunification. He demanded that German military power in the future be limited.

Western analysts here believe that political changes in the Warsaw Pact nations of Eastern Europe have effectively disintegrated the Warsaw Pact, and it is very difficult for them to reach consensus on issues that crop up in the course of negotiations on arms reduction. Added to this is the serious difficulty the Soviet Union will have in providing jobs for its demobilized troops returning from Eastern Europe, as well as with domestic instability in the Soviet Union. All of this has forced the Soviet Union to approach arms reduction negotiations very cautiously.



As for NATO, there have always been people who worried that if the pace of arms reduction were too fast it could give rise to new dangers. They also understand, of course, that the German issue is the core of future European security. It appears that various anxieties about the course of German reunification have become a new problem facing the CFE talks.

The problems are many and the difficulties great, but arms reduction has become one of the major directions in which international events are moving. It is reported that both NATO and the Warsaw Pact will call meetings of their defense ministers prior to the "two-plus-four" negotiations on Germany. It is apparent that both the East and the West are seeking new solutions to new problems. The heads of both the Soviet and U.S. delegations stated in press conferences following the sixth round of negotiations that, although there are difficulties, an agreement can still be hoped for within the year.

### **Analysis of Europe's Evolving Strategic Structure**

*OW1607200790 Beijing BAN YUE TAN  
[SEMI-MONTHLY TALKS] in Chinese  
No 11, 10 Jun 90 pp 51-53*

[Article by BAN YUE TAN special correspondent Shi Lujia (2457 7627 0163): "The Changing Strategic Structure in Europe"]

[Text] Drastic changes in the world situation have led to the emergence of a new strategic structure in Europe. Since the second half of last year, the most profound changes in the situation in Europe over the past 40 years since the war have taken place: East European countries one after another are leaning gradually to the West after taking the road of political "pluralism" and a market economy; the issue of the reunification of the two Germanys has not only been put on the agenda, but its progress has been speedy; the tendency toward independence in Western Europe is intensifying, and new progress has been made in bilateral and multilateral cooperation; the process of disarmament negotiations has accelerated, and military confrontation has been reduced; and the capacity of the two superpowers, the United States and the Soviet Union, to control the affairs of Europe has declined. The changes in the situation in Europe indicate that the old political, military, and economic order is being dismantled while a new structure is taking shape.

### **Politics: The Disintegration of the "Yalta" System**

A situation of divided rule emerged in Europe because of historical reasons at the end of World War II: All of Europe and Germany were divided in two. The United States and the Soviet Union pulled some of their allies over to their side and put them under their control, thus resulting in the formation of the two large military-political blocs, NATO and the Warsaw Pact. Moreover, the two superpowers stationed massive troops in their respective spheres of influence, thus resulting in a direct

confrontation. This setup, based on the "Yalta" agreement, has been known as the "Yalta" system, whose characteristics include the existence of a clear demarcation between the two big blocs, different political systems and ideologies, and a close balance of forces. Neither side has been able to "eat up" the other.

A tilt has emerged in the balance of political power in Europe following the drastic changes in the political situation in Eastern Europe. One wing of the "Yalta" system has almost disappeared following the drastic decline of Soviet influence in Eastern Europe. Right on the heels of these developments, the issue of the reunification of the two Germanys was again put on the agenda. At present, the two Germanys have reached an agreement on creating an economic and monetary alliance as the first step toward reunification. Intensive bilateral and multilateral negotiations centering on the internal and external questions of reunification are under way. After reunification, Germany's territory will encompass 356,000 square km. Its population will total 78 million people, with a gross national product [GNP] (according to current standards) of 2.4 trillion marks, second only to the United States and Japan. A Germany with such a vast territory, huge population, and powerful economic strength is bound to become a political power which both the United States and the Soviet Union cannot control. This has not only broken the east wing of the "Yalta" system, but is also posing a threat to its west wing. At the same time, with the changes in Eastern Europe and the Soviet Union, West European countries are demanding to be the master of their destiny. Politically, they have stopped obeying the orders of the United States, and have put forward independent proposals on such issues as policies toward the Soviet Union and Eastern Europe, the reunification of Germany, and Europe's future political security structure. The leadership position of the United States has been shaken, while the west wing of the "Yalta" system is about to fall apart.

What kind of political order should be established in Europe in the future? The United States, the Soviet Union, and Western Europe all have their respective plans. The essence of the idea of building "a common European home," raised by Gorbachev, is to drive a wedge between Europe and America, disintegrate NATO, eliminate the U.S. military presence in Western Europe, and, finally, exclude the United States from Europe's political arena, so as to preserve the Soviet Union's special status in Europe. The United States put forward "Atlanticism," demanding the continued presence of U.S. troops in Western Europe and NATO, and insisting that Germany should remain within NATO after unification. The United States also demanded that the European Community [EC] remain open to it and that the role of the Conference on Security and Cooperation in Europe be increased. The intent of the U.S. is to preserve its strategic and economic interests in Europe and maintain its status as the leader of Europe by all means, and under this premise, to build "an integrated free Europe" which includes Eastern Europe and is based

on Western values. Western Europe, however, has raised the slogan of "a Europe from the Atlantic to the Urals," hoping that the "Yalta" system will be discarded totally. This slogan shows that Europe neither wants the Soviet Union nor the United States to interfere in European affairs. On the other hand, it wants to center European economic and political integration around the EC and establish the leading role of Western Europe in Europe's political arena. Obviously, these ideas are incompatible with one another. A fierce struggle is expected to emerge among the United States, the Soviet Union, and Western Europe on this basic issue.

#### **Military Affairs: The Foundations of the Two Big Blocs Have Been Shaken**

The basis for the existence of the NATO and Warsaw Pact military blocs for dozens of years has been each side's claim that its formation was necessary to deal with the military threat posed by the other side. This was also one of the reasons for the escalation of the post-war arms race in Europe. In the wake of U.S.-Soviet Union detente and the new changes in the political situation in Europe, military confrontation has been reduced substantially. Following the signing of the treaty for the total destruction of intermediate- and short-range-guided missiles in Europe by the United States and the Soviet Union in December 1987, the Soviet Union announced in December 1988 that it would unilaterally reduce its armed forces by 500,000 men before 1991. In December 1989 it again announced its intention to withdraw all of its overseas troops before the year 2000. In this respect, the Soviet Union and Czechoslovakia have reached an agreement on troop withdrawal, while the withdrawal of Soviet troops from Poland and East Germany is now only a matter of time. Because of the East European countries' successive demands for the withdrawal of Soviet troops, the Warsaw Pact military alliance already has ceased to exist except in name. Furthermore, Democratic Germany, Czechoslovakia, and Bulgaria have announced troop reduction plans in an attempt to cut defense spending.

Influenced by the disarmament tide from the Soviet Union and Warsaw Pact countries, some NATO countries have also indicated their intention to reduce their defense commitment to the alliance. Belgium has announced that it will withdraw 50,000 troops from West Germany, and the Netherlands is also planning to withdraw some troops from that country. At the same time, Western Europe's call for U.S. troop withdrawal is becoming louder with each passing day. At the request of its allies, Bush recently announced the abandonment of a plan to replace short-range-guided missiles and nuclear artillery pieces deployed in Western Europe. He also indicated his willingness to negotiate with the Soviet Union on the total destruction of short-range nuclear weapons in Europe. The United States also has clearly indicated its intention to withdraw some of its regular troops in Western Europe. Obviously, military solidarity within NATO is weakening.

At present, the United States continues to energetically advocate the preservation of NATO. Other NATO members also oppose the Soviet's proposal to dissolve the two big blocs immediately and simultaneously, but their objectives are obviously different from those of the past. Western Europe hopes to rely on the strength of the alliance to pressure the Soviet Union into making more military concessions, because, although the Warsaw Pact is on the brink of disintegration, the Soviet Union remains so powerful militarily that Western Europe cannot match it. The United States still wants to counter the Soviet Union. Besides, it still wants to control Western Europe through its relationship in the alliance, and particularly Germany. This is the objective of the Bush administration when it put forth a proposal for reducing NATO's military functions while at the same time increasing its political role.

#### **Economy: The European Community Is Rising Swiftly**

While post-war Europe was divided into two big blocs politically and militarily, there also have been two economic entities—the European Economic Community [EEC] and the Council for Mutual Economic Assistance [CMEA]. The CMEA has become increasingly less active following the changes in the political situation in Eastern Europe and the gradual disintegration of the Warsaw Pact. On the contrary, the EEC is becoming stronger and more and more important with each passing day. The total population of the EEC member countries is 323 million people, and their total GNP is \$3.782 trillion, second only to the United States; per capital income is \$11,690, second only to the United States and Japan. If after German reunification, the GDR portion becomes part of the EEC, its strength will become even more impressive. In the past two years, the EEC has accelerated its advance toward its goal economic integration. A unified European market is to be established by the end of 1992 according to the plan. Moreover, there is a tendency within the EEC to expand toward Eastern Europe and thus to become an overwhelming force in Europe's economic arena.

In the process of expansion, the EEC will not only infiltrate Eastern Europe and the Soviet Union, but is also bound to elbow out other Western economic powers, particularly the United States. The United States has been at a disadvantage in its economic relations with Western Europe. Because of this, there have been frequent quarrels between the two sides, and trade friction is a common occurrence.

The change in Europe's strategic structure has just begun. A new structure has yet to be formed, but we can be sure of the following: the bipolar U.S. and Soviet systems in Europe are about to come to an end; the European economic and political alliance developed on the basis of the EEC will assume an increasingly greater role, and a unified Germany, as a new superpower, will occupy the central position in the EEC. International analysts have predicted that a situation will emerge in Europe in which the three superpowers, the United

States, the Soviet Union, and Germany, will exist side by side, and that there will be fierce rivalry among the three.

#### **Future U.S.-Soviet Relations, Rivalry Analyzed**

*HK1107002190 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 12, 16 Jun 90 pp 2-3*

["Special Article" by Xin Peihe (2946 3099 0678): "From Malta to Washington"—first paragraph is SHIJIE ZHISHI's introduction]

[Text] [place not given], 4 Jun—In the transition period marked by great changes in the international setup, the United States and the Soviet Union see each other as adversaries and, at the same time, need each other; the specific manifestation of the two aspects have different emphases or vary at different times, on different issues, and under different circumstances.

The present round of U.S.-Soviet summitry agreed upon at the Malta meeting last December was held in Washington from 31 May to 3 June. Some results of the meeting have already been known to the public, i.e., both parties have signed joint statements or agreements on arms control, such as a cut in strategic nuclear weapons, destruction and nonproduction of chemical weapons, and supervision and verification of underground nuclear tests; agreements on cooperation between the two countries in economic, cultural, scientific, and marine transport fields, especially the trade agreement, they will be submitted to the U.S. Congress for deliberation and approval after the Soviet legislative assembly's approval of the immigration law. The two leaders also put forth the idea of holding U.S.-Soviet summits on an annual basis. They have not solved the serious differences between them over the status of a unified Germany or the Lithuanian issue, but they have obtained a better understanding of each other's views. Moreover, both parties have also exchanged views on various issues, such as regional conflict, human rights, emigration of Soviet Jews, and domestic reform in the Soviet Union, and have reached an understanding on a few of them.

Taken as a whole, as President Bush said prior to the meeting, "there will not be surprising things." If viewed from the tasks put forward at the Malta meeting, the present meeting cannot be said to be satisfactory. The treaty on cutting strategic nuclear weapons and the trade agreement on granting most favored nation status, which should have been signed at the meeting, will have to be completed in the second half of this year. In light of some of the tension in the atmosphere in their relationship prior to the meeting, such as the "existence of vast differences" between both parties which, Bush claimed, might also affect the summit meeting, and Gorbachev's emphatic statement that the West should not take advantage of the opportunity of his involvement in domestic reform to "fish in troubled waters," the meeting, as both men remarked afterwards, made "important progress," discovered "many common areas," and "provided many chances for the development of future cooperative relations between the United States and the Soviet Union."

In a sense, it can be said that the Malta meeting was the outcome of Bush's "beyond containment" policy integrated with Gorbachev's "new thinking." It shows that both countries proceeded from their practical needs and the changing international situation in shifting their relations more to "mutual understanding and cooperation." Gorbachev holds that, ever since the United States and the Soviet Union concluded a treaty on eliminating medium-range missiles in December 1987, "fundamental changes have taken place in U.S.-Soviet relations"; Bush, however, praised Gorbachev for carrying out "very fundamental reforms" in the Soviet Union. Baker said that "the institution of a democratic political system in the Soviet Union is the best guarantee that the Soviet Union has adopted a constructive policy on international issues." Despite this, the development of U.S.-Soviet relations has not been smooth in the past six months and at times there has been some tension. On the Lithuanian issue, the United States has interfered in Soviet internal affairs and constantly exerted pressures on the Soviet Union; on the issue of reducing strategic nuclear weapons, there have been reversals in the Soviet attitude, with the Soviet Union intentionally slowing down the progress on reducing conventional weapons; and there are sharp differences between both sides on the question of whether or not a unified Germany should become a member of NATO. As a result, Gorbachev firmly pointed out prior to the summit that "as far as the Soviet Union is concerned, NATO's actions have always been hostile to the Soviet Union.... and are linked with the Cold War," that "the stubborn attitude of Western countries of insisting that a unified Germany should remain in NATO can only harm the relationship that the East and West have been developing over the past year or so." To people holding an excessively optimistic view after the Malta summit, the emergence of these sharp contradictions in U.S.-Soviet relations in recent days is quite unexpected. But it is precisely in line with the law governing the development of and changes in U.S.-Soviet relations.

First, judging by their long-term strategic interests, both the United States and the Soviet Union have to ease their relationship, and the general trend of this relaxation is relatively long-term. However, this does not change the basic outlook of each side in viewing the other as an adversary. Compared to the past, the ideological and social system factors of confrontation in their adversarial relationship are not as prominent, but these fundamental factors have no means disappeared. Meanwhile, the adversarial relationship chiefly reflected in geopolitics and the arms race, still exist. That is an important reason why tension still exists at times amid the general trend of relaxed U.S.-Soviet relations.

Another characteristic in U.S.-Soviet relations in the new situation is their complexity and fluctuation. There are two reasons for this. On the one hand, there is a contradiction in the United States' policy toward the Soviet Union. The United States not only supports Gorbachev's reforms, making sure that his position is

stable, but also takes advantage of the current favorable situation to try by every possible means to weaken the Soviet Union as an adversary. One manifestation of this is that at disarmament talks, the United States tries its best to pressure the Soviet Union into making concessions in order to gradually gain superiority through arms quantity reduction. Another example is that the U.S. seeks to eliminate the Soviet military threat by means of superiority in technology and on the seas. A second manifestation is that the United States tries to continuously weaken Soviet influence in the Third World, a glaring example of this being U.S. activities to limit Soviet relations with Nicaragua and Cuba. On the other hand, the Soviet Union welcomes U.S. support for its reform but, instead of allowing the United States to upset the strategic balance and seize military superiority, the Soviet Union should resist the U.S. plot and activities to weaken it. This has naturally increased the complexity of U.S.-Soviet relations.

Moreover, the overall international situation is undergoing great change and is marked by upheavals brought about by the transition period. This characteristic will inevitably be reflected in U.S.-Soviet relations, such as in fluctuations resulting from rapid developments of the situation. During the Malta meeting, the United States and the Soviet Union originally reached an understanding on the process of German unification, i.e., preventing this process from developing so fast as to become destabilizing. Soon afterwards, however, the drastic developments in the unification process between the two Germanys forced the United States and the Soviet Union to correspondingly readjust their own positions. By this time, due to their different conditions and interests, the differences between the two were conspicuous. The United States was chiefly concerned with how to preserve its leading position in the future new European order and how to restrict and, at the same time, utilize the huge forces of a unified Germany. For this reason, it stressed that Germany must stay in NATO. The Soviet Union, however, proceeding from its own security interest and desire to weaken U.S. influence in the new European setup, stressed that a unified Germany should by no means remain in NATO, that it would be better for Germany to be neutral, and that it is necessary to restrict German military power and hardware. Another situation is that the United States and the West always had misgivings about a possible reversal in the Soviet domestic situation and policy. For this reason, there have always been two sides to the U.S. Soviet policy: On the one hand, the United States tries as much as possible to enable the Soviet situation to continuously develop along present lines and to eliminate the possibility of reversals; on the other hand, its policy always includes options in case there are reversals. The third situation is that in the transition period there are always ideological and material forces trying to preserve the old setup. The Soviet Union and the United States are not exceptions.

The third characteristic in U.S.-Soviet relations is that U.S. Soviet policy has increasingly taken the offensive.

The first manifestation is the emphasis that U.S. foreign policy "must reflect the concept of democratic values" (see Baker's 30 March speech in Dallas, entitled "Democracy and U.S. Diplomacy"). Baker explicitly asserted: "We are linking our aid with our concept of value.... Our support will be judged by a single test, i.e., whether it can promote a democratic political system and economic freedom." The second manifestation is that internally, the United States still upholds its policy of position-of-strength. In the defense portion of his budget report for the 1991 fiscal year, Bush explicitly pointed out: The United States should "act prudently" in readjusting its defense program. He cited two primary reasons for this: 1) "Even after the announcement of the defense cut, Soviet military capabilities should still not be trifled with," and 2) "the United States should still maintain its capability to respond to any major reversals." Consequently, Soviet Marshal Sergei Akhromeyev said last February: "There are still some factors in U.S. policy arousing people's vigilance.... This is because the United States tries to pursue its old position-of-strength policy."

In the current transition period marked by major changes in the international setup, the United States and the Soviet Union see each other as adversaries and, at the same time, need each other. But their specific manifestations of this will probably be different at different times, in different places, and on different issues. For example, the progress made in arms control will not eliminate the existence of the arms race in the foreseeable future. While cutting the quantity of arms, the United States and the Soviet Union are still engaged in a fierce competition over arms quality in terms of advanced science and technology. In this aspect, it is quite apparent that the United States and Soviet Union see each other as adversaries. Moreover, for some time to come, the differences and struggle between the two countries on the issue of independence of the three Soviet Baltic republics will also markedly reflect their relationship as adversaries. However, because they also need each other, these differences and struggles have so far remained within controllable limits.

## NEAREAST/SOUTH ASIA

### Friction Between India, Neighbors Analyzed

90CM0155A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese No 2,  
13 Apr 90 pp 9-15

[Article by Zheng Ruiyang (6774 3843 4382): "A Few Problems in India's Relations With Its Neighboring States"]

[Text] India's relations with its neighbors constitute an important factor affecting peace and stability in South Asia. Some of the more notable problems involving relations between India and its neighbors in recent years include the issue of an Indian troop withdrawal from Sri

**Lanka, the trade and border crossing dispute between India and Nepal, and Indian-Pakistani relations.**

The new Indian Government has taken an aggressive posture with respect to improving relations with its neighboring states, and the neighboring states have responded positively, but due to the complexity of various internal conflicts in South Asia, it is not likely that the misgivings of the neighboring states regarding India will be completely eliminated, so the improvement of relations between India and its neighboring states will not be all smooth sailing.

As international tensions ease, the temperatures of some regional hot spots have also begun to fall, or hope of resolution has appeared, but events have not unfolded in exactly the same manner everywhere. The situation in South Asia has become complex in some ways. First, relations between India and its neighboring states have improved in some ways, and they have grown tense in others. Tensions have arisen in otherwise relaxed situations, while chances for improved relations have materialized in some tense situations. The most notable problems involving India's relations with its neighboring states in recent years include the issue of India's troop withdrawal from Sri Lanka and the trade and border crossing dispute between India and Nepal. Second, economic, social, ethnic, and religious conflicts within South Asia are very pronounced, and the exacerbation of these conflicts could exert a huge influence upon international relations. The Sikhs in India's Punjab state and disturbances in Pakistan's Sindh Province constitute an important destabilizing factor in Indian-Pakistani relations. Recent deterioration of the situation in Indian-controlled Kashmir has caused a renewal of tensions in relations between India and Pakistan, though they had been on the mend for the past year.

As the 1980's came to a close and the 1990's approached, India held general elections and its government changed hands. When the new Indian prime minister first assumed office he announced his intention to improve relations with neighboring states. India's relations with its neighbors constitute an important factor affecting peace and stability in South Asia, and they have thus received close international scrutiny.

This article gives a brief introduction of a few relatively pronounced problems regarding relations between India and its neighboring states.

#### **I. The Issue of India's Withdrawal of Troops from Sri Lanka**

On 1 June 1989, Sri Lanka's President Premadasa publicly demanded that India withdraw all of its "Indian peacekeeping troops" from Sri Lanka by 29 July. The Sri Lankan Government stressed that the Indian troops had entered Sri Lanka at the request of the Sri Lankan president, and that the Sri Lankan president also had the right to demand their withdrawal. The Indian Government had given repeated assurances that it would withdraw its troops whenever the Sri Lankan

president requested it. In reality, the Indian Government refused the Sri Lankan president's demand. Prime Minister Rajiv Gandhi stated on 14 June that India was in favor of withdrawing its troops from Sri Lanka, but that the troop withdrawal had to be linked to the issue of the transfer of power in Sri Lanka's northern and eastern provinces. He then stated on 15 June that India could not withdraw its troops until Sri Lanka had fully carried out the India-Sri Lanka agreement. He also criticized Sri Lanka for handling the issue of the Indian troop withdrawal "in an extremely imprudent manner" and said that Sri Lanka was "moving in a very dangerous direction." The Sri Lankan Government also held very tenaciously to its position. The Sri Lankan foreign minister announced on 13 July that if the Indian troops in Sri Lanka did not obey the order of Sri Lanka's president and withdraw by the end of July, they would become an occupying force, and the Sri Lankan Government would take action to force them out. On 19 July, the Sri Lankan president said in a letter to the Indian prime minister, "The continued presence of India's armed forces is an obstacle to the recovery of peace and normality in Sri Lanka," and that "it is inconsistent with a nation's sovereignty to recognize the right of the troops of another country to carry out activities within its territory against the will of that country's head of state." At the same time, the entire country, including opposition political parties, unanimously supported the president's decision to demand an Indian troop withdrawal.

Why did Sri Lanka make such a strong demand for an Indian troop withdrawal?

First, the India-Sri Lanka agreement did not achieve the expected result, and the Indian peacekeeping troops failed to bring peace to Sri Lanka. On 29 July 1987, Sri Lanka's President Jayewardene and India's Prime Minister Rajiv Gandhi signed a peace agreement regarding the resolution of Sri Lanka's ethnic conflict, after which point India sent a unit of peacekeeping troops to Sri Lanka. However, the most powerful of the Tamil armed organizations in the northeast—the Liberation Tigers of Tamil Eelam (LTTE)—refused to lay down its arms as called for by the India-Sri Lanka agreement. Before the ink had dried on the agreement, an armed conflict broke out between the Tigers and the Indian troops, and the Indian troops had no choice but to suppress the Tigers with armed force. India continually increased troop strength in response to the requirements of combat. It is reported that at their peak, Indian troops numbered between 60,000 and 70,000. Although the Tamil Tigers suffered great losses when heavy Indian troop concentrations surrounded and routed them, they have not been destroyed or brought under control. They are still using guerrilla tactics to fight the Indian troops. The Indian troops also suffered great losses. More than 1,000 officers and men have been killed.

Second, Sri Lanka feels that having Indian troops stationed in Sri Lanka has worsened its domestic conflict. Apart from ceaseless battles between armed Tamils and Indian troops, a Sinhalese antigovernment organization

in the south—Janatha Vimukthi Peramuna (JVP) [People's Liberation Front]—has been carrying out terrorist activities and assassinations under an anti-Indian banner. According to figures announced by Sri Lankan officials, 4,000 assassinations have been carried out by the JVP in the two years since the signing of the Indis-Sri Lanka peace agreement. Targets have included government officials, leaders of the ruling party, and people who support the India-Sri Lanka peace agreement. The JVP launched a series of anti-Indian protest marches and strikes in June and July, seriously affecting industrial production and daily lives. The Sri Lankan Government has resolutely suppressed the JVP. Leaders of the JVP, such as Wijeweera, have been arrested or killed, and the group's strength has been diminished, but it continues to operate.

Third, the Sri Lankan Government began to carry out peace talks with the LTTE in August 1989. Both sides reached an agreement on 27 June to cease all hostile activities. The two sides further agreed that all groups and organizations should resolve all problems among themselves through discussion and compromise in a situation free of external interference. The LTTE originally opposed the Sri Lankan Government and enjoyed the support of India as they fought against government forces, but now they oppose the presence of Indian forces and have demanded that India withdraw its troops. Hostile and friendly relations have undergone a switch, and both parties have found common ground. This is the basis that allowed an agreement to be reached. Sri Lanka feels that since the Tamil Tigers problem has been solved, the Indian troops have no need to remain in Sri Lanka.

India has expressed its willingness to withdraw its troops, but why does it continually delay?

There were general elections in India last year. If the Indian Government had accepted the troop withdrawal deadline declared by the Sri Lankan Government, people in India would have considered it a diplomatic defeat, which would have harmed the government's prestige and damaged the election prospects of the ruling party.

India was worried that if it withdrew its troops before conditions were ripe, the situation in northeastern Sri Lanka would have gotten out of control, and renewed fighting could have broken out between various armed Tamil groups in a leadership struggle. For this reason, India demanded that its troop withdrawal be linked to the issue of the transfer of power in the northern and eastern provinces, and that the safety of Sri Lanka's Tamil population had to be ensured.

The struggle between Sri Lanka and India over the Indian troop withdrawal influenced not only their bilateral relations, but the progress of the newly established South Asian Association for Regional Cooperation [SAARC] as well. The meeting of seven foreign ministers which had originally been scheduled for July in Pakistan

was postponed because the Sri Lankan foreign minister refused to participate. With the mediation of Pakistan (the current SAARC chair), the meeting was finally held in November, and the meeting of seven heads of state which had originally been scheduled for November in Colombo had to be postponed. The Sri Lankan Government has stressed that it will not host this year's meeting of heads of state as long as Indian troops remain in Sri Lanka, nor will it participate even if the meeting is held in another country.

Other countries in South Asia sympathized with and supported Sri Lanka's demand for an Indian troop withdrawal. Pakistan's Prime Minister Benazir Bhutto said that India should withdraw its troops as soon as Sri Lanka requests it. Nepal also expressed opposition to the stationing of any country's troops inside another sovereign nation.

India and Sri Lanka have carried out long and arduous negotiations over the timetable of the troop withdrawal. On 28 July 1989, the day before the deadline set by Sri Lanka, the two sides reached a compromise. Sri Lanka abandoned its original deadline, but it demanded that India produce a timetable for troop withdrawal. India also took a conciliatory posture, withdrawing 600 persons on 29 July. On the same day, the Sri Lankan foreign minister led a delegation to India to negotiate a timetable for troop withdrawal. Although the talks lasted three days longer than originally planned, no agreement was reached. The primary disagreement was the fact that India still insisted on linking troop withdrawal with the issue of the transfer of power in Sri Lanka's northern and eastern provinces, while Sri Lanka felt that the transfer of power was its internal affair. As for which Tamil organization should be handed power, each side had its own plans. In August negotiations, Sri Lanka set September as the new deadline for troop withdrawal. India then offered a plan for a phased troop withdrawal. About 1,500 people would be withdrawn every week until completion at the end of February 1990. After three more rounds of negotiations, India and Sri Lanka reached an agreement on 18 September in which India pledged to "do everything possible" to withdraw all of its troops from Sri Lanka by the end of 1989. In the three months remaining before the year came to a close, Indian forces stationed in Sri Lanka were to transfer administration of law and order in eastern and northern Sri Lanka in stages to the Sri Lankan authorities. Although 1989 passed, India was unable to keep its promise.

Late last year and early this year the Sri Lankan foreign minister visited India twice to negotiate the Indian troop withdrawal and to sign an India-Sri Lanka Friendship Treaty (which would replace the India-Sri Lanka peace agreement). India promised to withdraw all of its troops by the end of March this year. Sri Lanka demanded that India withdraw all of its troops by the end of March this year. Sri Lanka demanded that India withdraw all of its troops by the end of January so that Sri Lanka could celebrate its independence day (4 February) without any

foreign troops on its soil. India promised to reconsider the possibility of withdrawing its troops ahead of schedule. There are some other problems between India and Sri Lanka which must be resolved. First, it was reported that Sri Lanka's foreign minister criticized the Indian forces for setting up an illegal Tamil military unit in the northeast without the permission of the Sri Lankan Government, and he demanded that India disarm the unit immediately. Second, armed conflict between separate Tamil factions had already occurred or were presently going on in some areas from which Indian forces were withdrawing. As for the India-Sri Lanka Friendship Treaty, Sri Lanka has already drawn up a draft which India is now studying. In the future, the two countries' foreign ministers will have to continue holding talks about the problems described above.

## **II. Trade and Cross-Border Migration Problems Between India and Nepal**

India and Nepal have been involved in a dispute since March over bilateral trade and cross-border migrations, bringing tension to a relationship which had been relatively stable. Nepal has stated clearly that its government bears no responsibility for the tense relations between India and Nepal, and that the situation had arisen because the Indian government had unilaterally terminated trade and cross-border migration treaties between Nepal and India. Nepal's Prime Minister Marich Man Singh Shrestha said that the Indian Government "deeply harmed the traditional friendship between the countries" when it took the "unexpected" action of cutting off transportation to Nepal. India blamed the tension on Nepal, stating that Nepal had taken some measures which disturbed the "special relationship" that the two parties had built up on the basis of the 1950 friendship treaty signed by both countries.

India and Nepal signed a trade treaty and a cross-border migration treaty in 1978, both of which expired in 1988. Both parties negotiated to extend the treaties twice and they expired on 23 March 1989. Prior to the expiration date, India proposed to Nepal the negotiation and signing of a single treaty which would cover both trade and cross-border migration, as well as a cooperative agreement controlling unlicensed trade. Nepal, though, demanded to continue signing separate trade and cross-border migration treaties. The two parties reached a standoff, and India announced unilaterally on 23 March that it would cease to carry out the provisions of the expired treaties, and it closed 13 of the 15 border-crossing points between India and Nepal. India also decided to stop supplying gasoline, kerosene, diesel, foods, medicine, and baby foods to Nepal. Because Nepal is a landlocked nation which has long relied on India in matters of trade, these measures by India caused Nepal serious economic difficulties. Factories closed down or partially suspended production due to shortages of raw materials and fuel. It was impossible for busses and trucks to operate normally. Taxi fares tripled. The people waited in long lines at stores to buy daily necessities, and panic-buying was rampant. Every sector of the economy was hurt. The official estimate in Nepal is that economic losses in Nepal from 23

March to mid-July 1989 (the end of Nepal's 1988-1989 fiscal year) may have reached 3 billion rupees (equivalent to \$118 million).

The Nepal Government has taken various measures to overcome the economic difficulties thus caused. Nepal's King Birendra issued a statement on 12 April calling on the people to be self-reliant and overcome the hardship. On 12 May, Nepal's Minister of Foreign Affairs Upadhyaya said that Nepal planned to abandon its reliance upon India ("abandon the policy of relying on a single country") and develop trade and economic links with other countries. Nepal made plans to purchase such necessities as petroleum products, coal, and medicine from other countries in order to meet their urgent requirements.

Nepal also adopted some countermeasures to deal with India's "economic blockade." For example, it began carrying out a new tariff policy on 11 April. It lowered tariffs on commodities imported from other foreign countries at the same time it terminated preferred status for Indian commodities, which were levied the same tariffs as commodities from other countries.

According to press reports from India and other foreign countries, India's "economic blockade" against Nepal occurred within the following context:

1. Nepal has been trying to diversify its trading activities. India and Nepal signed a single treaty covering both trade and cross-border migration in 1950. The treaty remained in effect for 10 years and was renewed in 1961 and 1971. In the mid-1970's, people in Nepal began to demand a diversification of foreign trade in order to correct Nepal's reliance upon a single country. Dealing with trade and cross-border migration in a single treaty impeded the diversification of foreign trade, however, so in 1976 Nepal requested that India sign separate treaties for the two issues. That coincided with a change of government in India in 1977. The government of the Janatha Party under Prime Minister Morarji Desai agreed to Nepal's request in order to improve relations with a neighboring state. The two countries signed separate treaties for trade and cross-border migration on 17 March 1978.

Nepal achieved fairly good results by diversifying its trade. Over 90 percent of Nepal's foreign before the 1970's was with India, but after that this figure dropped to 82 percent in 1974, 50 percent in 1981, and 41 percent in 1988. Nepal strengthened ties to the United States, Europe, Japan, and such neighboring states as Pakistan, Bangladesh, and China.

2. Apart from economic factors, there were also political factors behind the dispute between Nepal and India. Foreign news agencies have taken the position that the dispute between Nepal and India is related not so much to trade as to India's "concept of security." India looks upon Nepal as part of India's security complex.



Nepal does not agree with India's concept of security. Nepal's minister of foreign affairs stated to the UN General Assembly last October that Nepal rejects the idea that the security of large and powerful countries is more important than that of small and weak countries. He also reiterated the proposal made by Nepal in 1975 for a Nepal Peace Zone, and emphasized that this proposal was a concrete example of how a small country can protect its security. The proposal for a Nepal Peace Zone has gained the support of more than 100 countries. Not only has India rejected the proposal for many different reasons, it has harbored great resentment over the issue.

The Nepal Government has pursued a policy of non-alignment for many years, developing friendly relations with all countries. Calls within Nepal to change the "special relationship" between Nepal and India have been growing more and more forceful. As one Nepalese said, "we have come to realize it was a mistake to rely solely on India in the past. We hope to maintain our friendship with India, but not a special friendship."<sup>1</sup>

3. Immigration has been a source of controversy between Nepal and India in recent years. The Nepal-India Peace and Friendship Treaty of 1950 stipulated that the border between the two countries would be open, that the two countries' citizens could freely move across it, and that they could live and work wherever they chose. It is reported that Indians living in Nepal account for one-third of Nepal's population. The ever-increasing Indian population in Nepal and the degree of their monopoly over economic activities there was causing concern in Nepal, so the Nepal Government gradually adopted measures to restrict Indian immigration. Nepal implemented a work-permit system for foreigners in Nepal in 1987 which required that they have a work permit in order to hold a job in Nepal. Naturally, it was Indians who were most affected.

Drawing these elements together, it is apparent that the trade and cross-border migration dispute between India and Nepal is not an isolated incident; rather it is a composite reaction to all of these conflicts taken as a whole. After the dispute broke out, the Nepal Government took emergency actions to overcome difficulties even as it actively set about negotiating with India.

On 26 March 1989, Nepal's Minister of Foreign Affairs Upadhyaya went to India for talks with Indian Minister of External Affairs P.V. Narasimha Rao. Nepal proposed extending the expired trade and cross-border migration treaties temporarily before signing a new treaty. There was precedent for this, but India rejected it, and the negotiations yielded no results. On 18 April, Nepal's Prime Minister Shrestha stated that Nepal was prepared to resolve "all bilateral issues," including trade and cross-border migration, through negotiations. Nepal's prime minister reiterated on 9 July that the Nepal government was willing, on the basis of mutual respect and peace, to resolve all issues between Nepal and India through friendly negotiations.

After a five-month standoff, India's Minister of External Affairs Rao visited Nepal on 25 August. At the end of the visit, he said that this visit was "very successful." However, it was reported that Nepal had hoped India would reopen the 13 closed border-crossing points in order to restore Nepal's foreign trade to normalcy, but the Indian minister of external affairs made no promises in this regard.

India's new prime minister, V.P. Singh, stated last December after taking office that he was willing to improve relations with Nepal. Nepal's King Birendra welcomed the "positive attitude" of India's new government, and announced that Nepal would adopt a policy of "constructive cooperation" and would develop friendly relations with India. Nepal's minister of foreign affairs visited India on 3 January and held conversations with India's minister of external affairs, after which they issued a joint news communique stating that the talks had "begun to yield progress toward resolving outstanding problems between the two countries and reaching a solution that would be acceptable and beneficial to both parties." The talks did not result in a concrete agreement, but India's new Minister of External Affairs I.K. Gujral expressed optimism regarding relations between Nepal and India and said that some disagreements would soon be resolved.

### III. Destabilizing Factors in Indian-Pakistani Relations

Indian-Pakistani relations in recent years have been characterized by alternating periods of tension and relaxation. Their relationship was relatively tense in the first half of 1989. India accused Pakistan of supporting the activities of Sikh separatists in the Indian state of Punjab, and Pakistan accused India of being involved with the unrest in Pakistan's Sindh Province. In August of that year, Pakistan's President Zia-ul Haq was killed when his airplane exploded. India's President Ramaswamy Iyer Venkataraman personally attended the funeral ceremony in Islamabad and expressed a willingness to improve relations. The Pakistan People's Party [PPP] won the general elections in late November and Benazir Bhutto assumed the office of prime minister. Foreign observers everywhere felt that this was an opportunity for improvement in Indian-Pakistani relations. India's Prime Minister Rajiv Gandhi sent a telegram of congratulations and expressed hope for improvement of the two countries' relations. The fourth session of the SAARC heads of state was held in late December in Pakistan's capital. The prime ministers of India and Pakistan took advantage of the occasion to engage in three rounds of talks. They carried out comprehensive discussions of their bilateral relations and achieved positive results, including agreements to refrain from attacking each other's nuclear facilities, to strengthen cultural exchanges, and to avoid double taxation. This was the first time the two countries had signed such important agreements since the signing of the Simla Agreement in 1972. Both sides give high marks to these meetings between their heads of state. Benazir Bhutto



stated that Pakistan and India had begun the process of establishing trust. Rajiv Gandhi termed the meetings "a good beginning."

Overall, 1989 was a year of improvement and relaxation of tension in Indian-Pakistani relations. In particular, Prime Minister Rajiv Gandhi's visit to Pakistan on the way home in July after attending celebrations in France for the 200th anniversary of the French Revolution had important significance. This was the first time an Indian prime minister had officially visited Pakistan since Prime Minister Nehru did so 30 years earlier, and it accelerated normalization of Indian-Pakistani relations. Both sides expressed a desire to strengthen exchange and cooperation in the areas of industry, agriculture, transportation, health, and science and technology. An editorial in England's *TIMES* stated that India and Pakistan both needed a relaxation of tensions, and that there was "reason to believe that momentum toward relaxation of tension in Indian-Pakistani relations will be maintained." Ministers [from both sides] met at the third meeting of the India-Pakistan Joint Commission, which was held on 18-19 July in Pakistan. Both sides agreed to set up a Joint Enterprise Council and hold commodity trade fairs in each other's countries. Pakistan agreed to allow imports of 322 additional products from India. Both sides agreed to establish working groups on economics and trade, science and technology, and consular affairs. The meeting also approved a plan for bilateral cultural exchanges between 1989 and 1991. The Indian foreign minister stated that this meeting's results were "a true breakthrough."

Pakistan carried out large, joint maneuvers with its Army and Air Force in Punjab from 9 December to 23 December last year. India's new prime minister, V.P. Singh, said he did not believe that Pakistan's military maneuvers would trigger a march to the border by the Indian Army. In contrast to the situation in 1985, when military maneuvers by India and Pakistan near their border generated thick tension and had both sides at each other's throats, India's reaction this time did a lot to ease tensions.

However, the conflict between India and Pakistan has deep roots. Certain flash points for controversy have been legated by history to these two nations, and they frequently become destabilizing factors in relations between them. When progress is achieved in a particular area, the same issue often becomes a problem again later.

The issue of Kashmir is one of the primary points of contention that history has passed down to India and Pakistan, and it has recently been the focus of controversy between the two sides. During the Indian prime minister's visit to Pakistan last July, both sides held to their respective views during talks. Pakistan demanded that popular elections be held in Kashmir in accordance with relevant UN resolutions. In a joint press conference held by both prime ministers, Rajiv Gandhi stated that the issue of popular elections no longer existed because the 1972 Simla Agreement between India and Pakistan

"superceded all previous agreements." Benazir Bhutto immediately interjected to express disagreement with India's interpretation of the Simla Agreement. Representatives from Pakistan raised the issue of Kashmir at the UN General Assembly last October, in the meeting of the General Assembly's Social, Humanitarian, and Culture Committee last November, and in the special session of the General Assembly which had been called last December to oppose apartheid. Indian representatives opposed all of these measures, and even lodged protests.

Since late last year, unrest and violence in the areas of Kashmir controlled by India have set off a war of words between India and Pakistan, and bilateral relations became tense once more. A spokesman for Pakistan's Ministry of Foreign Affairs stated on 14 January that "the situation in Kashmir is fraught with danger. The people of Pakistan feel deeply uneasy about the fact that more and more people in Kashmir are being killed, and about the fact that Indian troops have continually used armed force." The next day, the spokesman for India's Ministry of External Affairs accused Pakistan of "interfering in our internal affairs," and accused Pakistan of supporting Muslim extremists in Kashmir. India's position is that Jammu and Kashmir are a part of India, and that the only unresolved problem is when Pakistan will withdraw from territory that it occupies illegally. Pakistan's minister of state for defense rebutted on 16 January that the deterioration of the situation in Indian-held Kashmir was due purely to internal causes, and Pakistan was not involved. Pakistan's foreign minister visited India on 21 January and engaged in talks on this issue. It is reported that this meeting broke up in discord amid accusations and counteraccusations. It appears that neither India nor Pakistan will alter its position.

The situation in Kashmir and the controversy between India and Pakistan have deteriorated recently. Armed Muslims in Indian-controlled Kashmir have traded fire with Indian security forces in Srinagar and other areas. Various parties in Pakistan launched a "day of solidarity between Pakistan and the people of Indian-controlled Kashmir," expressing their support for the struggle of the people of Indian-controlled Kashmir for self-determination. On the afternoon of 5 February, 30,000 people gathered on the border of Indian-controlled Kashmir. Events are still in the making, but India and Pakistan have both expressed the hope that the problem can be resolved peacefully, and that they will not go to war over the issue of Kashmir.

The issue of the Siachen Glacier is part of the Kashmir dispute. Indian and Pakistani troops have been in a standoff in that area since 1984, and armed conflict has erupted several times. Multiround talks on this issue have been held several times at various levels, but no breakthroughs have been achieved.

In mid-June last year, an Indian military delegation, headed by the minister of defense, visited Pakistan and carried out three days of talks with Pakistan's minister of defense on the glacier issue. The joint news communique

issued after the talks stated that both sides discussed "a concrete plan for a comprehensive resolution of the Siachen Glacier issue on the basis of the Simla Agreement," and that they "agree to work for a comprehensive settlement based on changed troop deployments which would reduce the possibility of conflict in order to respect the Simla Agreement and ensure lasting peace in the region." Afterward, both sides agreed to establish a joint military commission to draw clear boundaries in the glacier region and avoid military conflict. The joint communique issued after the visit of the Indian prime minister to Pakistan in July also stated that the two sides would "work to achieve" a comprehensive resolution of the dispute over the Siachen Glacier region by pulling troops back in order to avoid military conflict." Soon thereafter, however, Pakistan's Prime Minister Benazir Bhutto announced on 21 August during a trip to observe the Siachen Glacier region that negotiations between Pakistan and India on the Siachen Glacier dispute had broken off. Late last year, an incident in which Indian and Pakistani troops exchanged fire occurred again at the Siachen Glacier.

Arms race and nuclear weapons issues also constitute a major obstacle to improving relations between India and Nepal. Even though India exploded a nuclear device in 1974, it has frequently expressed "concern" about Pakistan's nuclear plans. India has even made repeated requests that the United States put pressure on Pakistan to prevent it from producing nuclear weapons. Pakistan has stated many times that it is developing nuclear technology only for peaceful purposes. Pakistan long ago had proposed to India the establishment of a nuclear weapons-free zone in South Asia, suggested a simultaneous signing by India and Pakistan of the Nuclear Nonproliferation Treaty, urged an end to their arms race, and suggested the signing of a nonaggression treaty. India rejected all of these proposals for various reasons. After coming to power, Benazir Bhutto again proposed a "regional discussion" of nuclear disarmament and suggested a regional agreement on the issue. She said this would be a reliable way to stop nuclear proliferation in the Asian subcontinent. Pakistan feels that "if any one nation in the Asian subcontinent were to take unilateral action, it could lead to a nuclear arms race." India rejected Pakistan's proposal, stating that the issue of nuclear arms cannot be viewed as an isolated regional issues. However, the new prime minister of India, V.P. Singh, stated that he was willing to engage in dialogue with Pakistan.

This year is the first year of the 1990's. Surveying the situation in South Asia, one finds equal cause for optimism and concern. On the one hand, there are positive factors conducive to the relaxation of tension and improvement of relations. In particular, India's new government has actively sought to improve relations with its neighboring countries, and those countries have responded positively. Since the beginning of the year, India and its neighbors have launched frequent diplomatic activities aimed at improving relations, and some

successes have been achieved. This is an excellent beginning in the effort by all the countries in South Asia to improve relations. On the other hand, the various internal conflicts within this region are very complex. Old conflicts can sometimes erupt under new conditions. It is unlikely that the suspicions of India's neighbors can be completely laid to rest. Therefore, the improvement of relations between India and its neighbors will not be all clear sailing. As foreign observers have pointed out, India's policy toward its neighbors is in for a test in the coming year.

#### Footnote

1. Reuters, Kathmandu, telegram of 27 August 1989.

### SOUTHEAST ASIA/PACIFIC

#### Australian Media Cited on West's Tiananmen Coverage

90CM0201A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 19, 7 May 90 p 6

[Article by Tao Zhipeng (7118 1807 1756): "The Australian Media Reflects on Inaccurate Reports of Beijing's Suppression of the 4 June Incident by the West"]

[Text] During the most recent period, some members of the Australian media have reflected on the question of the Western media's serious distortion of the facts concerning Beijing's suppression of last year's rebellion. Australia's Special Broadcasting Service [SBS] has already broadcast three programs dealing with the serious distortion of facts in reportage of the 4 June incident and the need for news coverage to be truthful.

The Australian-born British writer-reporter Philip Knightley believes that, with the facts concerning the 4 June incident gradually becoming clear and the obvious distortion of facts by the Western media, their use of the phrase "carnage" to describe the incident is not sensible.

Robin Wangluo [5345 5012], an expert on Asian problems, who was in Beijing during the 4 June incident, said in a discussion of this topic on SBS that the number of casualties during the 4 June incident was greatly exaggerated by the Western news media and obvious mistakes were made in their reporting of casualty figures. He said some Western reporters not only discounted information supplied by eyewitnesses, but also ignored the important fact that 3,000 of the last students remaining in the square left peacefully after talking with the military.

Robin Hutchinson, chief editor of the SOUTH CHINA MORNING POST, said during an interview with SBS reporters that the casualty figures for the 4 June incident were not as high as those put out by the Western media. THE NEW YORK TIMES has admitted that it made numerous mistakes in its reports and distorted facts about the 4 June incident. He said that during the first few days of the incident he also used the phrase "carnage," but now considers the use of this phrase to be inappropriate.

Bide Ailinsen [1764 1779 1002 2651 2773], who won an Australian news award for his reportage of the 4 June incident, wrote the following in an article for the SYDNEY MORNING HERALD DAILY: "On the night of June 3d, when the military was surrounding Tiananmen Square, I was in the square and did not see anyone shot." He also said, "Reporters who rushed to the area following the incident reported rumors of a great massacre and a large number of deaths in the square. I believe this was a big mistake."

Two days after the 4 June incident, Murray Chelton, a roving correspondent who has over 40 years of experience, was sent from Tokyo to Beijing. During a special discussion on SBS, he said that during his three-week coverage he came to the conclusion that the major reason facts about the incident were distorted was the inexperience of reporters and their disregard for facts. He feels that using rumors as a basis for reports is not the way reporters should work. He has no tolerance for Western reporters who intentionally exaggerated casualty figures and asked, where are the pictures of so many dead? Chelton also criticized some erroneous reports of the 4 June incident by television reporters. He said they did not inform their viewers of the reasons that created the incident, but merely put together some hair-raising shots, disregarding what kind of issues these shots may convey, nor caring which shots were taken earlier and which later.

The Western news media, especially some television reporters, used modern film technology and film editing in their reporting of the 4 June incident which caused some serious distortions of the facts. This has drawn dissatisfaction from Australian newspeople who have taken a serious look at this issue.

Maijinnisi [7796 6855 1441 2448] published an article on 4 April in the AUSTRALIAN DAILY saying that now people feel the television pictures did not show the "truth." The whole truth about the incident has now come out, "the things crushed by tanks were merely piles of clothing and other articles abandoned by the hunger

strikers." He said to take the television film of the young man wearing the backpack who confronted the tank as an example. No matter how they explain it or what interpretations are made about the film, they cannot deny the fact that "the tank commander showed tolerance and restraint." However, when compiling the "truth" about these pictures, the television producers did not mention the tolerance and restraint shown by the tank commander.

SBS stated that the distortion of facts concerning the 4 June incident cannot be placed completely on reporters. Some foreign diplomats stationed in Beijing during the incident gave reporters from their countries "many intelligence reports that are now seen as being obviously distorted," such things as reports of "flare ups" and "internal strife" within the military, and the death of thousands. This television station broadcast that foreign diplomats had political reasons and certain goals for supplying these stories.

On 12 April SBS telecast a discussion in which it was stated that not long after the 4 June incident, some Western diplomats stationed in China released reports to their countries that contained some vivid and terrible descriptions of the incident. These erroneous reports resulted in many jokes and an embarrassing situation for the individuals who made the reports.

On 12 April, during a commentary on SBS, Philip Knightley stated that the politicians of Washington, London, and Canberra made their decisions concerning the 4 June incident immediately after hearing erroneous reports from intelligence officials and television reports, and this was a very "naive action." He said, they should know that many intelligence officials derive their "intelligence" from television reports.

SBS stated that there is a danger of facts being distorted when foreign reporters cover national calamities, and, after the fact, they are often accused of being at fault. The issue is that when a report is discovered to be in error, reporters should have the courage to admit their mistakes.

**Zhao Ziyang's 'Errors' in Ideology**

90CM0215B Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 4, 5 Apr 90 p 31

[Article by Bu Shicheng (0592 0013 2052) and Wang Yingjie (3769 5391 2638): "What Damage Did Comrade Zhao Ziyang's Errors Do to the Party?"]

[Text] In the past several years, Comrade Zhao Ziyang departed from the basic principles of Marxism on which the party was founded and the party's constructive and fine traditions, to the point of openly proposing "remolding the party." Guided by his erroneous thinking, the party's leadership and ideological political work was weakened, which compounded faults in other areas, and exacerbated intraparty ideological confusion, as well as organizational and disciplinary laxity. It encouraged those who caused corruption, seriously harmed the party's relationship with the masses, and weakened the party's combat capability. Comrade Zhao Ziyang's errors in these areas were chiefly manifested in:

1. The serious neglect and consequent abandonment of Marxist-Leninism and Mao Zedong Thought, the foundation of the party's leading ideology. Comrade Zhao Ziyang, in his position as general secretary of the party Central Committee, once brazenly told a conference that, in the future the chief of the four cardinal principles would be adherence to the leadership of the party; the other three would be adhered to less or not at all. At the 1989 Central Committee class on party-building, he proposed that "study in itself could lead groups to those things they must master in becoming party members." That is, he was saying that one need not study and apply the basic principles and methods of Marxism. Because the party's major leading groups did not adhere to Marxism as the party's guiding thought, theoretical confusion led to ideological confusion, and the unchecked spread of various kinds of bourgeois ideological trends.

2. Ignoring the fact that building the party must be carried out inseparably from the party's basic line. Comrade Zhao Ziyang turned away from implementing the leading ideology that party building must be centered on upholding economic construction at the center, from upholding the four cardinal principles, from upholding the party's basic line of reform and openness. On numerous occasions he proposed "taking control of the whole situation through reform," and even trying to use building honest and clean politics as a substitute for building the party, proposing that "building the party must center on building clean government." When leading comrades at that time recommended that it would be best for him to pay special attention to building the party, he said that he was paying attention to it by paying attention to building clean government. While it is true that building clean government is important, still, it is only through stressing building the party that a stress on clean government will be effective. In the new historical era, building the party departed from upholding the four cardinal principles, and from having economic construction at the center, so it inevitably went astray.

3. Weakening the position and function of local and grassroots party groups. Comrade Zhao Ziyang violated the stipulations of the party constitution, distorting Comrade Deng Xiaoping's original idea that the objective of separating party and government was to improve and strengthen the leadership of the party; on the pretext of separating party and government Zhao weakened the function of local party groups. He proposed the murky notion that "the function of local party groups is as a bridge between the central authorities and the grassroots." He did his utmost to negate the position of enterprise party groups at the political nucleus and the leading function of political ideology, proposing that "enterprise party groups are similar to organizational party groups," practicing as a minister complete responsibility for a "new system" of ideological political work, and as party secretary with the simultaneous position of political assistant plant director, as a "new model." In this system, party groups were turned into appendages of administration, seriously weakening the function of grassroots party organizations.

4. On the premise of revolutionizing, he seriously neglected putting into effect the cadre "four modernizations" policy. He knew that the standard of political integrity is judged mainly by the achievements in one's political career, while the standard for judging political achievements lies chiefly in whether the forces of production were developed, and not on the premise of revolutionizing. The things he admired and worshipped were Western economic thought and the absorption of capitalism's "political vitality," and moving them into important stations in party and nation. Some people involved in this became fomenters of counterrevolutionary upheaval and rebellion.

5. He seriously crippled the party's ideological political work. He advocated a policy of "remolding ideological political work," and his brain trust, in keeping with the intent of "remolding," deleted the word "political" in the phrase "ideological political work." Moreover, he made it known to the masses through RENMIN RIBAO. They put undue emphasis on the managerial aspects of ideological political work, which negated the leading function of party groups in this work. Comrade Zhao Ziyang also looked upon the cadre contingents in ideological political work as leftist, ossified, and conservative in their influence, holding that political work cadres had no good use, saying publicly that the party's political work contingents were "very objectionable." On the pretext of improving organizations through retrenchment with crack cadres, by carrying out the so-called deprofessionalization of the party and making cadres in party work part-time positions, he seriously crippled the contingent of cadres engaged in party work, causing an abominable influence.

6. He advocated that we cannot avoid discussing corruption, adopting a passive attitude toward the phenomenon of corrupt high-ranking cadres gaining privileges for their children. These tendencies are a major issue of life and death for a ruling party. For a long time, Zhao

Ziyang seriously neglected the overwhelming import of this trend in building the party, on numerous occasions emphasizing that discussion of corruption cannot be avoided, arguing in favor of corruption. Right up to the end of 1988, he was still saying, "Looking at the development process of the capitalist nations worldwide, we see that they passed through several stages, the most common situation being that in the initial stages the government was dishonest. Later, as the economy developed, the system was perfected, and the working people's quality of life raised, government gradually changed." Such views write off the differences between socialist modernization and capitalist modernization, and winks at the spread of various kinds of improprieties and corruption. On the question of high-ranking cadres and their offspring gaining privileges, he adopted a passive attitude, saying that "the children of high cadres are also citizens; they should receive equal treatment, we cannot discriminate against them." Comrade Zhao Ziyang's passive attitude encouraged improper tendencies within the party and corruption through political trickery. This seriously damaged the party and its flesh-and-blood relationship with the masses of the people.

#### **Private Enterprise Owners Denied Party Membership**

90CM0215A Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 4, 5 Apr 90 p 29

[Article by Ju Mugen (3818 2606 2704): "Why Cannot Owners of Private Enterprises Join the Party? What Makes a Party Member?"]

[Text] The reasons that private enterprise owners cannot join the party can be seen from two aspects.

First, looked at from the nature of the party, the CPC is the vanguard organization of the Chinese working class. Its guiding principles are to eliminate the system of exploitation and bring about the communist social system, and to serve the people wholeheartedly. But private enterprise owners operate private enterprises and develop the private economy. Their enterprises employ workers, their capital is returned to an individual's possession, and there is a surplus value created by the workers which in varying degrees is uncompensated. Their relationship with their workers is in reality that of exploiter and exploited. This is incompatible with the nature of the party. If owners of private enterprises joined the party, it would change the party's class foundation; this is something a working class political party cannot allow.

Second, the history of the CPC shows that, excluding the pre-Liberation era, when, in order to meet the needs of our revolutionary struggle, the party recruited some people whose conduct had been slightly exploitative, the CPC has always refused to let inside the party those whose conduct was exploitative, or recruit them to join. For example, during the historical period of transformation to socialism, party central authorities made it clear that "Communists should have no exploitative behavior

whatever," and "being a Communist means to eliminate all exploitation of the mode of production of others." As Comrade Deng Xiaoping noted, in his report on constitutional revision to the Eighth National Party Congress, "party members must engage in labor, and not exploit other laboring people."

A private enterprise owner who is already a party member must abide by the constitution, maintain the party's aims and ideals, and seriously fulfill the obligations of a party member. Politically, he must support the party's line, policies, and principles laid down at the Third Plenary Session of the 11th party Central Committee, consciously maintain political and ideological unanimity with the party's central authorities. In the course of his production management, he must be exemplary in carrying out the nation's economic policies, taking care of paying taxes, and operating legitimately. In enterprise allocation, other than the remuneration which an operator or manager should receive, he should apply most of his after-tax profits to the development of production, to collective welfare, and to public causes. In organizations, he must participate in whatever activity that party organizations may stipulate, doing his best to complete every mission that party organizations may assign to him, and pay his party dues on time and in accordance with his individual, true income and his assigned share. In maintaining links with the masses, he will treat his employees with care, respect, and equanimity, protecting their legitimate rights and interests. If he does not do these things, he cannot continue to be a member of the party.

Party organizations should also strengthen the education of party members in this regard. They should educate party members in advancing the party's nature and aims and the ideology of communism. They should strengthen their management, require that they show initiative, regularity, and accuracy in reporting to party organizations on their enterprises' operations, management, capital, income, and allocations. Also, they must accept that in such situations as hiring workers and so on they will consciously accept party control. Members must be required to enthusiastically participate in the activities of party organizations, pay their dues on time, earnestly fulfill the duties of a party member, and accomplish the various assignments which are given them by party organizations.

Those party-member enterprise owners who do not conscientiously accept the teaching and control of party organizations, who do not support the ideology of communism or its aim of wholeheartedly serving the people, who do not earnestly fulfill the duties of a party member, and who do not do their utmost to accomplish the tasks assigned to them by party organizations, will, through the means of democratic appraisal of party members for the new register of party members, either be advised to quit the party or will not be given a place on the register.

### Background of State Planning Commission's Zou Jiahua

90CM0160A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 211, 16 Apr 90 p 29

[Article by Chen Meng (7115 5336): "Zou Jiahua, Able To Wield Both the Pen and the Gun"]

[Text] Zou Jiahua Seeks a Solution for Shanghai's Economy

State Council member Zou Jiahua, after being appointed minister in charge of the State Planning Commission at the 11th session of the 7th National People's Congress, immediately led a delegation on a visit to Japan. Because of his modest and amiable attitude and hard work, he not only won favorable comments from the Japanese Government and public, but also caused a turn for the better regarding Japanese investment in China, which had been suspended for a period of time.

After the Spring Festival, Zou Jiahua, who is renowned as a "deft hand at handling knotty problems," also went to Shanghai to devise a plan for extricating Shanghai out of its economic low point.

The majority of people in China's economic circles believe that Zou Jiahua is an ideal choice for minister in charge of the State Planning Commission. In his position as a state counselor, Zou was in charge of work in over 10 departments, including energy resources, communications, raw materials, machinery, and the electronics industry. He was head of the Ministry of Machine Building and Electronics, and has abundant experience in administrative supervision. According to insiders, in 1988 during the severe energy shortage that drastically restricted China's economic development, Shanghai, China's largest city, had only enough coal in reserve to last two days. The State Council decided to send Zou Jiahua to handle this difficult problem. Through careful investigation and study, he unified management, coordinated transportation and coal production, and quickly turned the situation around.

### Capable in Both Civil and Military Affairs, Familiar With the Work of All Departments

A quick thinker, steady, and down to earth, this is how people who have worked with Zou Jiahua describe him. A few years ago Zou Jiahua was moved [from his position] as minister in charge of the National Defense Science, Technology, and Industry Commission, and was assigned to be head of the Ministry of Weapons Industry. At this time, China's weapons industry was experiencing problems in marketing its products. As soon as Zou Jiahua took over, he made it clear that emphasis should be placed on the production of products for civilian use. Now, civilian use products account for 60 percent of the weapons industry system.

In 1986, after Zou Jiahua was appointed minister of machine-building and electronics, he changed the machine-building industry's concept of striving only for

its own development; he proposed making the requirements of consumers become their goals, and having their aim be to serve the consumer. This resulted in both the number of enterprises and output value of the machine-building and electronics industry account for a third of China's total industry, and did a good job of giving play to the role of equipment departments in the national economy.

### Enters the Office Every Morning at Exactly 0800

Zou Jiahua was born in Shanghai in 1926; as a youth he led the life of a vagrant with his father Zou Tao [6760 7290]. During this time, the revolution had an uplifting influence on him, in 1944 he joined the New 4th Army. To this day he still maintains a military bearing; he walks with a straight back and steady pace while entering the office at exactly 0800 each morning. Zou leads a thrifty and simple life, does not smoke or drink, and commonly wears Mao-type clothing that is patched.

Zou Jiahua is a machinery manufacturing expert, in 1948 he went to study at the Machine Manufacturing Department of the Moscow Baoman [7637 2581] Industrial College. Upon his return to China in 1955, he worked at the Shenyang No. 2 Machine-Tool Plant for eight years, where he went from being a common technician to the position of chief engineer and plant manager. In 1964, he was appointed director of the State Council's No. 1 Machine Bureau Research Institute.

### From the National Defense Science, Technology, and Industry Commission to the State Planning Commission

During the Cultural Revolution, Zou was sent to the countryside to work for six years. In 1973, he began his tenure as vice minister in charge of the National Defense Science, Technology, and Industry Commission, and in 1982 he was vice minister of the National Defense Ministry, he was in uniform until 1985.

Zou Jiahua is proficient in Russian, has some knowledge of English, and is a good writer. Driving has now become his hobby. If you see his sedan pass by, the person sitting behind the wheel will always be the newly-appointed minister in charge of the State Planning Commission.

### Analysis of Local Reform Agencies

90CM0209A Beijing ZHONGGUO JINGJI TIZHI  
GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 4, 23 Apr 90 pp 43-44

[Article by Li Zhangzhe (2621 1624 0811): "Brief Analysis of Local Reform Agencies"]

[Text] Recent statistical data show that every province, autonomous region, directly administered municipality, and individual city has established relevant reform agencies. At the provincial level, the authorized personnel strength in 1989 rose by nearly 80 percent over what it was in 1986. This steadily growing reform contingent has been brought to fullest use during our 10 years of reform, and a brief analysis of it follows.

### 1. Number of Reform Agencies

Nationally, there are 44 reform agencies spread among 30 provinces, autonomous regions, directly administered municipalities, and 14 individual cities.

### 2. Names of Reform Agencies

Although the reform agencies of each province, autonomous region, directly administered municipality and individual city all have their own names, they more or less fall into one of two categories. The first category lists these in a governmental entity arrangement, calling them the "provincial (regional, municipal) economic system reform commission." There are 33 of these, 75 percent of the total number of reform agencies. The second category consists of administrative bodies under the leading small groups of the provincial governments, called "provincial (regional, municipal) economic system reform office." There are 10 of these, 23 percent of the total number. Somewhat unique is that of Hainan Province, which is called the "Hainan Economic System Reform Research Office," and is subordinate to a provincial commission. This may have to do with Hainan's only recently having attained provincial status.

### 3. Listing Government Organizations

Of these 44 reform organizations, 29, or 65.91 percent, are listed in a government index, and 15, or 34.09 percent, are not. One should note that in 1986 only eight provincial-level reform organizations were listed in a government index; in 1989, 17 were listed, which was an increase of 112.5 percent. The Hainan System Reform Research Office is listed in a provincial commission index. Although the reform offices of Guangdong and Gansu are not presently listed, relevant departments at the next highest level have approved their listing in a government index. Not only is Guangzhou's reform commission listed in a government index, it is listed first, which shows the degree of importance attached to it. The percentage of the 14 cities with independent economic decisionmaking authority listed [in an index] is higher, 85.71 percent; only two cities (Qingdao and Xian) were not listed. The percentage of the three municipalities listed [in an index] is not high; neither the capital of Beijing nor the largest city, Shanghai, is listed. The reform commissions of Shaanxi and its capital, Xian, are not listed in a government index. The reform commissions of some of the more economically backward regions, such as Qinghai Province, the Ningxia Hui Autonomous Region, and the Tibetan Autonomous Region, are not listed in a government index. The reform agencies of Sichuan and Hunan Provinces are handled along with the economic reform centers of other self-governing provinces. One can see from this that the timely listing of reform agencies in a government index enables reform personnel to feel justifiably secure about their work. This is extremely urgent.

### 4. Personnel Strength

The 44 reform agencies have a total authorized personnel strength of 2,017; at present, they have 1,838 people on their staffs, so they are 179 people under strength, a rate of 8.87 percent under the authorized level. It should be noted that "present staffing" means those personnel who are actually working in their posts, including office workers, temporarily transferred personnel, personnel in enterprise leading offices, and enterprise staff. If there was a cut in this staffing (45 positions in all), then they would actually be 224 people below authorized strength, and the below staffing level rate would climb; among the 44 reform agencies, the one with the greatest authorized staffing level is Sichuan Province's reform commission—a total of 100 staff members. However, the reform commission and the provincial economic research center in that province are one set of organizations with two labels; so the authorized personnel level is set with a certain miscount. The smallest authorized personnel level is that of the Tibetan Autonomous Region's Economic Reform Leading Small Groups Research Office—only eight people. Shaanxi Province's reform commission is the most below its authorized staff level—22 people. The Tibet Autonomous Region's reform office is currently the most in excess of its authorized strength—three people. Of the 44 reform agencies, 35 are under their authorized staffing levels, which is 79.55 percent of them. Four reform agencies are above their authorized levels, which is 9.09 percent of the total of 44. Five of the agencies are exactly at full strength, which is 11.36 percent of the total number of 44 agencies. In addition, in the 14 individual cities, only Xiamen's reform commission is in excess of strength. Of the reform commissions (offices) of the three directly administered municipalities, none are in excess of authorized staffing levels.

### 5. Internal Setup of Organizations

The internal organizations of reform agencies are exceedingly varied. Based on a rough analysis of statistics, there are 55 different kinds of managing offices, with comprehensive offices and circulating system offices being the most common, 27 in all. Other managing office setups that are commonly found include 25 offices, 16 macroeconomic adjustment (or macroeconomic system) offices, 14 management and publicity offices, 13 production system offices, 11 distribution system offices, nine secretariats, a total of eight experimental and planning offices, six information offices, and six county-level system offices. Looking at the agencies' organizational setup, the majority are set up in such a way as to gear them to the needs of the various relevant offices of the national reform commission; however, they do not have an overseas system office. Some reform commissions (offices) are more advanced in their research on rural system reform; examples of this are Liaoning, Hunan, and Hainan, none of which have special agencies doing special research on rural system reform. To strengthen ideological political work, two provincial reform commissions have been set up as



organs under the party committee: Jilin and Hunan. Sichuan has a relatively large number of people on its reform commission, so it set up a personnel commission; Shenyang's reform commission set up a factory director responsibility system office, with the aim of strengthening its work. Chongqing set up an open system office. Some reform commissions (offices) still lack a reform institute, a reform study society, and an organization for reform of the political system. The reform commission with the most numerous internal organizations is that of Harbin, which has 12 offices; the smallest number are those of Zhejiang's reform office, Jiangxi's reform commission, and Yunnan's reform commission, each having but three offices. There are two agencies that have no internal organizations: the reform offices of Anhui Province and the Tibet Autonomous Region.

### 'Brand' of Past, Present Coexist

90CM0225B Beijing DAXUESHENG [UNIVERSITY STUDENT] in Chinese No 5, 10 May 90 p 13

[Article by Gan Lin (3927 7207), graduate student, Beijing Normal University; Shan Shi (3790 2514), responsible editor: "The Enigma of History and the 'Knot' of Today's Reality—A Question To Think About"]

[Text] Long branded in the depths of the hearts of the Chinese people are two historical marks: One is the brand of the history of feudalism, and the other is the brand of the history of semicolonialism. These two historical brands sear the Chinese people's flesh and blood to this day.

Generally speaking, the history of feudalism can be taken to mean the history of the Chinese nation developing and flourishing in comparative independence on the Divine Land—China. This history, with its profound and lasting ancient civilization, with its once brilliant scenes of prosperity, as well as with its remarkable contributions to the ancient world, give the descendants of Yan and Huang pride, dignity, and sustenance. The foundation for this historical period was laid in the early Qin, it flourished in the Han and Tang, and it matured in the two Songs; straight on up to the middle of the Ming, China was a powerful and prosperous colossal empire. This was a culture that came down in one continuous line and a history that was never severed. This ancient civilization, always pregnant with its exquisite feelings in the hearts of the descendants of Yan and Huang, gives rise to inexhaustible sentiments.

What is unfortunate is that, after the history of feudalism gave way to the history of semicolonialism, humiliation replaced pride, a sense of inferiority replaced dignity, and even sustenance was excluded by a loss of hope. History, after this, seems, in people's hearts, to be

entirely different. Perhaps this is because the imperialist warships broke open China's gates, and after semicolonial rule began China lost or distorted the operating mechanism by which it had developed independently. The pipe dream of a "great country ruled by the Chinese imperial court" was broken. Actually, in this history, after the middle period of the Ming dynasty there was a latent crisis, which seemed to emerge in the 1840's and continue straight on into the beginning of the next century, and it could even be said to have extended to the whole of the country. Although the ancient Chinese empire was old and unwilling, it really entered a new historical era. This was a historical era of change, but once the changes began the Chinese people paid too high and too great a price, endured too deep and too grievous a disaster! There was such a wide gap in the "head" of people's psychology and the "accumulated sediment of history" that it resulted in the formation of two seemingly completely different phenomena and left two different brands. The significant questions are: Did honor bring humiliation? Did dignity turn into a sense of inferiority? Or was there no absolute relation of cause and effect between the two? Perhaps we should say precisely that this is not an enigma of history that is hard to understand, but that it is a 'knot' of today's reality that is hard to understand.

What we call today's reality in the broad sense includes the stretch of history since the founding of New China, but in the narrow sense it is only the 10 years of reform and opening up to the outside world. Here, we are speaking more of today's reality in the narrow sense, because these 10 years have been 10 years of reform and opening up to the outside world and at the same time have been 10 years of a fairly profound rethinking of history. It should be said that the former was the necessary result of the latter, and that the latter was the necessary precondition for the former. However, at least from a superficial look and from the attitude taken on rethinking history, there is an indisputable difference between two generations—young people and old people. In the old people, mainly because their experience of life crosses eras, the psychological influence of the phenomena of the two histories exists in a highly distinct manner: In their minds a glorious China coexists with a humiliated China. They love their motherland, and in them the ancient civilization is a longing that cannot be denied. They are loyal to their cause, because they once took part with their own two hands in the struggle to end the humiliation. In the heart of hearts of the younger generation, the separated historical phenomena form an amalgamated tendency, which perhaps at the same time is also manifested in history fading from the memory: In their minds China's glory was not all that bright, and China's humiliation was not all that deep. They value only one thing: reality. On the basis of this reality, the enigma of history that is hard to understand is at best no



more than a "knot" in today's reality that is hard to understand. Its source is not in history but in the necessary restrictions stemming from reality. The significance of this question lies in: Different views of history are bound to cause different views of reality, thereby causing different attitudes on life and different choices of concepts. There is only one reality, and there can also

only be one history. As for the "knot" that is hard to understand, young people, too impatient to wait, try to untie it—in both thought and action.

The brands cannot be erased. Young people should be a little more patient. This is the only way out that is feasible and suitable for China's national condition.

## NATIONAL AFFAIRS, POLICY

### Price Subsidy Effects Analyzed

HK2906103090 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 4, 20 Apr 90 pp 36-43

[Article by Zhang Ping (1728 1627) from the Institute of Economics at the Chinese Academy of Social Sciences: "An Analysis of the Effects of Price Subsidies on the Distribution of Residents' Income in China"—Edited by Zhang Wenmin (1728 0795 2404) and dated December 1989]

#### [Text] I. The Problem

Price subsidies provided to residents by the state exceeded 10 billion yuan for the first time in 1979.<sup>1</sup> Since then, subsidies have been steadily growing and have stayed at the high level of about 30 billion yuan most of the time. During the 1979-1986 period, price subsidies accounted for about 40 percent of the central government's revenue.<sup>2</sup> Price subsidies have actually become an important aspect of the redistribution of national income. Subsequent to their sharp increase, price subsidies have outstripped their function and scope as a measure in solving the problem of "food and clothing." They have become an important means for the distribution of benefit and directly affect the income distribution of urban and rural residents as well as changes in economic development and systems. There are as yet comparatively few systematic studies on the economic connotations and quantitative limits of price subsidies, coming from the distribution of benefits attached to material forms, or on the background of this practice. In this article I will attempt to study price subsidies as a new form of distribution of residents' income, calculate their effects on the distribution of residents' income, and further explore their broader significance to China's economic development and structural reform.

#### II. The Significance of the Distribution of Price Subsidies

Price subsidies started off as compensation for a low standard of living. It was a measure aimed at giving the people a stable life and initially providing residents with enough "food and clothing while lowering the level of consumption and pursuing a strategy of developing heavy industry through a high rate of accumulation." These kind of compensatory price subsidies showed two features in actual implementation: One was egalitarianism. In other words, each urban resident was entitled to the same benefits. This produced great benefits to scale in solving the problem of "food and clothing" for the majority of Chinese households. The other feature was a basic level of consumption. Price subsidies were provided on primary consumer goods vital to the people, such as grain and ginned cotton, to maximize the compensatory function. Price subsidies in China date back to 1953. Back then, only ginned cotton was subsidized, to the tune of 50 million yuan. In the eight years between

1953 and 1960, the state spent a total of 720 million yuan on price subsidies, equivalent to 0.26 percent of state revenue during that period. The varieties of price subsidies increased from one to four, with grain, edible vegetable oil, and tea, for border areas, being added to the list. In the 10 years between 1961 and 1970, the varieties of price subsidies further increased from four to eight, with vegetables, pigskin, and mulberry silk cocoons being added to the list. The amounts involved also increased. In the 1970s, the scope and amount of price subsidies continued to grow, though not by a very large extent. This state of affairs continued right up to 1978 when the reform and open-door policy was first introduced.

Price subsidies under the traditional system had indeed served as a kind of compensation for the low level of consumption and produced positive results. During the period 1953 to 1978, the scope and amount of price subsidies were determined by their compensatory functions and were therefore finite. Since their function was to help people "survive," they had not yet become a principal means for the distribution of benefits. However, it must be pointed out that in the late 1970s, price subsidies had already become a regular item of financial expenditure.

After 1978, price subsidies for residents showed a sharp upturn, increasing from 5.56 billion yuan in 1978 to the budgeted 35.1 billion yuan in 1989. The total would double if we included open subsidies and local financial subsidies. During this period, not only did the amounts of subsidies swell rapidly but the scope of subsidies also expanded significantly. According to incomplete statistics, there are more than 120 different types of subsidized commodities in China. Included under food are fruits, sugar, rice wine, tea leaves, peanuts, and beer. Included under clothing are dacron, silk, white cloth and boots. Included under articles for daily use are matches, tissue paper, metal fittings, and thermos flasks. Included under fuel are liquefied gas and firewood. The list covers practically everything. The amounts and scope of price subsidies are no longer determined by the need to satisfy people's needs for food and clothing. They have become a means by which the state provides its people with nonmonetary benefits. Most Western welfare states cannot bear comparison with China in terms of the varieties and range of benefits provided to their people.

Theoretically speaking, compensatory price subsidies under the traditional system should gradually be reduced as the standard of living steadily improves. However, the opposite is the case in reality. Despite the fact that the level of residents' income and consumption has seen a sharp upturn since 1978 and that the problem of "food and clothing" has been solved in the main since 1980, price subsidies have not been reduced and have seen a steady increase. The economic connotation of these huge subsidies has changed from a form of compensation, under the traditional system of low consumption, into a form of distribution providing welfare benefits to residents.

As a means for distributing benefits, the major feature of price subsidies is that they are attached to consumer goods and distributed. This feature makes them an independent form of distribution which differs distinctly from the distribution of cash income and distribution of income in kind. Price subsidies are different from distribution of cash income and income in kind in the following ways: First, in the distribution process, cash and goods have their concrete forms but price subsidies are attached to material forms and cannot be separated into concrete forms. Second, as far as residents are concerned, cash income and income in kind come first. In other words, they receive their income before consumption. Price subsidies, on the other hand, are distribution after consumption. In other words, they benefit from the price subsidies after buying the subsidized commodities.

There are roughly two forms of price subsidies. The first form is restrictive subsidies in kind, or what is generally referred to as rationed supplies, such as grain. If the ration coupons can be circulated, the distribution of this form of subsidy will be similar to the distribution of cash income; if not, it will be similar to distribution in kind. The second form is nonrestrictive subsidies in kind. For example, matches, tissue paper, light bulbs, red scarves, and many kinds of vegetables sold on the market are subsidized, but their purchase is not restricted. Every person can benefit from the subsidies after buying the commodities.

The special feature of price subsidies as something attached to consumer goods and distributed determines that while bringing all-round welfare to residents, they can also bridge the gap between disparities in income. This is because price subsidies are mainly for primary consumer goods and it is only through consumption that this kind of welfare income can be obtained. Since the consumption pattern varies between different income brackets, the lower the income level, the larger the proportion of primary consumer goods consumed, and the higher the income level, the smaller the proportion of primary consumer goods consumed. Due to this disparity, low-income households will benefit more from price subsidies than high-income households. The result is the bridging of the gap between high and low income brackets.

Residents benefit from price subsidies on two levels: One level is looking from the angle of the issuing body. In other words, the amount put in will be the amount benefited by residents. Assuming that each jin of rice is provided with a 30 cent subsidy, a resident who buys one jin of rice receives 30 cents in benefits. This kind of benefit comes from reduced expenditure on the part of residents. We define this kind of benefit from price subsidies seen from the angle of the issuing body as welfare subsidies. The other level is looking from the angle of the receiving body. In other words, benefits as perceived by residents, originating from the gap between state and market prices. For instance, when a person buys rice at 40 cents per jin from a state-run grain store,

the benefit he perceives is in comparison with the listed market price of 80 cents per jin. He feels that he has gained 40 cents in welfare. We refer to this kind of welfare formed by the gap between state and market prices as welfare rent.

Welfare subsidies and welfare rent both come from price subsidies but they differ significantly in terms of their nature and method of calculation. Theoretical clarification is thus necessary. First, if price subsidies are all-round and the free market is basically nonexistent, the benefits received by residents will only be welfare subsidies. Welfare rent does not exist at this stage. Some industrial consumer goods may be regarded as belonging to this type. Second, assuming that there is a theoretical equilibrium price, subsidies will only bring the equilibrium price down to the level of the state price.<sup>3</sup> If the subsidized commodities do not have too great an effect on market supply and demand, market price will equal equilibrium price. At this stage, price subsidies are equal to welfare rent. Third, when subsidies for commodities in short supply are not all-round and these commodities can be traded in free markets, by way of the arbitrary "accumulation of commodities in short supply," that is, through state subsidies, a large proportion of commodities in short supply will be placed under planned supply so that commodities in short supply on the free market will become even more scarce. This will directly affect supply on the free market. With supply cut while demand remains unchanged (these commodities usually have a small elasticity of demand, an example of which is grain), market price will continue to rise and will exceed the equilibrium price. Welfare rent based on the gap between state and market prices will exceed welfare subsidies based on the gap between state price and equilibrium price. Fourth, when subsidies are given to commodities the elasticity of demand of which is greater than 1, and these commodities are in fairly ample supply on the free market, it is possible that market price will be lower than the theoretical equilibrium price and the gap between state and market prices will tend to be smaller than the difference between state price and equilibrium price. In other words, welfare subsidies will exceed welfare rent.

From the angle of the opportunity cost of purchases made by residents, we can see that welfare rent based on the gap between state and market prices can more accurately reflect the special economic function of price subsidies in reducing expenditure on the part of residents. However, since welfare rent is usually restricted to farm and sideline products, we can only rely on the calculation of welfare subsidies to figure out the welfare benefit for residents in respect of clothing, articles of daily use, and fuel. In the following positivist models, we will first attempt an overall calculation of welfare subsidies, to be followed by a calculation of welfare rent, and compare and analyze the two. On the basis of these two calculations, we will combine welfare subsidies on clothing, articles of daily use, and fuel, with welfare rent

on farm and sideline products, to calculate the ultimate effect of price subsidies on benefits received by residents.

### III. Calculation of the Effects of Price Subsidies on the Distribution of Residents' Income

Price subsidies affect urban and rural residents in important but different ways. Urban residents benefit through consumption, since price subsidies act directly on consumer goods. Rural residents benefit through production, since price subsidies act mainly on production, that is, through raising the purchase price of farm and sideline products. However, this is outside the scope of the present article. Here, we will concentrate on analyzing the effects of price subsidies on urban residents. Calculating the effects of price subsidies on the distribution of residents' income is an exceedingly complicated task. It touches on price subsidies, the volume of retail sales, the distribution of residents' income, the consumption pattern, the gap between state and market prices, and a series of statistical indexes. We will proceed from the simple to the complicated, adding new interpretive variables as we go along, to calculate the magnitude of the effects of price subsidies on residents' livelihood.

Based on the definition and function of price subsidies discussed in the previous section, we have come up with the following three calculation models:

**Model 1:** Based on the classified materials of the central financial departments on price subsidies, the distribution of welfare subsidies in various social strata will be calculated. On this basis, the Gini coefficient and other statistics will be calculated to find out their effects on income distribution.

**Model 2:** Based on the gap between state and market prices, the welfare rent obtained by residents will be calculated. This will then be put alongside welfare subsidies on clothing, articles of daily use, and fuel to further observe the effects of price subsidies on income distribution.

**Model 3:** The effects of local financial subsidies on the distribution of residents' income will be calculated for further revisions of the distribution of residents' income.

Due to the availability of materials, we can only attempt detailed and careful calculations using Models 1 and 2. Calculations based on Model 3 can only be preliminary and await further exploration.

The computational formulas for Model 1 are as follows:

1. Let  $S^*$  equal the amount of subsidy per unit of major category of commodities, or the subsidy rate.

The formula is:  $S^*i = Si/Qi - RQi$ .

In this formula,  $Si$  is the amount of state subsidies for category 1 consumer goods,  $Qi$  is the retail volume of

$$Y^* = \sum_{i=1}^n S^* \cdot (Ci - RC_i)$$

category 1i consumer goods, and  $RQi$  is the volume of category i commodities sold by the peasants to urban residents.

2. Let  $Y^*$  be the actual welfare subsidies received by residents through consumption.

In this formula,  $Ci$  is the total volume of category 1 consumer goods purchased,  $RC$  is the volume of consumer goods purchased in rural fairs, and  $n$  is the number of varieties of consumer goods subsidized.

3. Statistical calculations.

1) Calculation of the Gini coefficient: Here we use the Gini coefficient calculation formula derived from the Lorenz curve.<sup>4</sup>

In this formula,  $G$  is the Gini coefficient,  $Y'i$  is the proportion of group i household income in total income,  $P'i$  is the percentage of group i households in the total number of households, and  $n$  is the number of groups.

2) The Oshima index: This indicates the ratio between the household income of the top-earning 10 percent of households and the lowest-earning 10 percent of households. Here this index is represented by  $O$ . The formula is:  $O = Y \text{ top-earning} / Y \text{ lowest-earning}$

3) The effect of subsidy income on total household income. This effect is represented by  $O$ .

$O = Y^*/Y$ . In this formula,  $Y$  is total household income.

The computational formulas for Model 2 are as follows:

1. The calculation of welfare rent. Welfare rent originates in the disparity between the state subsidized price and the market price. This kind of rent is obtained through purchase. Here we use  $R$  to represent welfare rent,  $L^o$  to represent the state subsidized price,  $L^1$  to represent the market price, and  $Q^*$  to represent the volume of goods purchased from state-owned stores.

The formula is:  $R = Q^*(L^o - L^1)$

2. Welfare rent is then divided between various income brackets for further statistical calculations. The computational steps and formulae are identical to step 3 under Model 1. The computational steps and formulas for Model 3 are identical to those for Model 1, except that the indexes used are local rather than central statistical indexes.

Based on the abovementioned formulae, we carried out actual calculations using figures for 1987, which are the most complete, to observe from the cross-section the

$$G = 1 + \sum_{i=1}^n Y_i' P_i' - 2 \sum_{i=1}^n \left( \sum_{j=1}^i P_j' \right) Y_i'$$

Table 1: Breakdown of Price Subsidies Provide by Central Financial Departments in 1987

		GRAIN & OIL	PORK	EGGS	VEGETABLES	COTTON CLOTH	LEATHER SHOES	SOAP	COAL	TOTAL YUAN PER PERSON YEAR
*Net Volume of Retail Sales		9042.2 (10,000T)	715.2 (10,000T)	109.5 (10,000T)	128.3 (100M Kg)	74.0 (100M Meters)	3.075 (100M Pairs)	33.33 (100M Bars)	20736.0 (10,000T)	
Subsidies (100M Yuan)		157.33	43.06	2.37	3.85	23.20	7.84	1.10	18.84	
Subsidy Rate		0.174 (yuan/Kg)	0.60 (Yuan/ Kg)	0.22 (Yuan/Kg)	0.03 (Yuan/ Kg)	0.32 (Yuan/m)	2.55 (Yuan/ Pair)	0.033 (Yuan/ Bar)	0.01 (yuan/Kg)	
Lowest	Purchase	125.40 (KPY)	6.43 (KPY)	1.80 (KPY)	27.24 (KPY)	1.44 (MPY)	0.36 (PPY)	5.96 (BPY)	231.44 (KPY)	30.79
	Benefits (Yuan)	21.82	3.86	0.40	0.82	0.46	0.92	0.20	2.31	
Low	Purchase	128.16	7.20	1.92	26.16	1.71	0.48	6.18	236.19	32.15
	Benefits	22.30	4.32	0.42	0.78	0.55	1.22	0.20	2.36	
Lower Middle	Purchase	128.64	7.68	2.16	27.60	1.95	0.56	6.45	236.26	32.93
	Benefits	22.39	4.61	0.48	0.83	0.62	1.43	0.21	2.36	
Middle	Purchase	127.68	8.28	2.40	28.20	2.03	0.64	6.54	237.56	33.45
	Benefits	22.22	4.97	0.53	0.85	0.65	1.63	0.22	2.38	
Upper Middle	Purchase	131.64	9.12	2.64	29.88	2.35	0.71	6.88	236.87	35.02
	Benefits	22.91	5.47	0.58	0.90	0.75	1.81	0.23	2.37	
High	Purchase	137.64	9.96	2.88	44.64	2.87	0.74	7.06	242.47	37.36
	Benefits	23.95	5.98	0.63	1.34	0.92	1.89	0.23	2.42	
Highest	Purchase	144.60	11.16	3.48	35.32	3.29	0.81	7.52	260.72	39.68
	Benefits	25.16	6.70	0.77	1.07	1.05	2.07	0.25	2.61	

KPY = Kg per year

MPY = meter per year

PPY = Pair per year

BPY = Bar per year

\*Net volume of retail sales refers to the volume of retail sales less the volume of direct sales to cities by the peasants.

Source: "Survey Data on Household Income and Expenditure of Urban Residents Throughout the Country for 1987" -- China Statistics Publishing House

basic effects of subsidies on residents' income. Using Model 1, we derived Table 1 below.

On the basis of Table 1, we carried out statistical calculations to determine the effects of subsidies by comparing the distribution of residents' income before and after subsidy.

1. Calculation of the Gini coefficient:  $G^{*1987} = 0.14216$ , where  $G^*$  is the Gini coefficient with subsidy.  $G^{1987} = 0.1462$ , where  $G$  is the Gini coefficient without subsidy. The difference between the two is represented by  $g$ .  $g = G - G^*$ ,  $g = 0.00404$ ,  $g^{1987} > 0$ . The calculation shows that subsidies can even up the incomes.

2. Calculation of the Oshima index:  $O^{*1987} = 2.07$  times,  $O^{1987} = 2.134$  times. The difference between the two is represented by  $0$ .  $0 = O^{1987} - O^{*1987} = 0.067$ .  $0 > 0$  shows that the income disparity has been reduced through subsidies. 3. The effects of welfare subsidies on high- and

low-income households:  $\Phi$  lowest = 5.8%,  $\Phi$  highest = 2.5%. Welfare subsidies have a greater effect on low-income households than on high-income households. In the above calculations, we tried to look at the extent of benefits enjoyed by residents from the angle of state subsidies. We will now switch to Model 2 to find out about residents' income resulting from reduced expenditure through the opportunities afforded by state subsidies, that is, through welfare rent. Residents' welfare rent mainly comes from farm and sideline products. The reasons are: 1) Farm product markets play an important role in the life of residents because of their legal status and large scale. 2) Obvious disparities exist between state and market prices because farm and sideline products are heavily subsidized by the state. 3) Country markets for farm and sideline products tend to have fairly uniform prices which makes calculation that much easier. Here we will base our calculation of welfare rent on major farm and sideline products.

Table 2: Breakdown of Welfare Rent Received by Urban Residents in 1987 (Grouped in Income Brackets)

	Difference between State and market prices (yuan/Kg)	Unit: Yuan/Per person per year						
		Lowest	Low	Lower Middle	Middle	Upper Middle	High	Highest
Grain	0.4306	51.96	53.04	53.16	52.68	54.24	56.64	59.28
Oils	1.0478	4.92	5.16	5.40	5.64	6.00	6.72	7.20
Vegetables	0.0743	2.04	1.92	2.04	2.04	2.28	2.40	2.64
Pork	0.1798	1.20	1.32	1.44	1.44	1.60	1.80	2.16
Eggs	0.4188	0.72	0.84	0.96	0.96	1.08	1.20	1.44
Total		60.84	62.28	63.00	62.76	65.28	68.76	72.72

Source: "Survey Data on Household Income and Expenditure of Urban Residents Throughout the Country for 1987" -- China Statistics Publishing House

Using the computation formulas of Model 2, we worked out the welfare rent obtained by residents from farm and sideline products in 1987.

A comparison between welfare rent and welfare subsidies may produce the following direct conclusions: 1) The welfare rent obtained by urban residents is more than twice as much as the welfare subsidies they received. In short, the direct effects of price subsidies provided by state financial departments are far smaller than their indirect effects. Seen from another angle, subsidies have widened the disparity between the expenditures of urban residents and those who work in cities. 2) The state and market prices of meat and eggs are well below the welfare subsidies provided. For instance, the

and sideline products. It does not give us a complete picture because subsidized commodities, in terms of clothing, articles of daily use, and fuel, are completely under state control. Without the market, there is no way of calculating rent. The only thing that can be done is to substitute welfare rent with welfare subsidies. Accordingly, we have added to Table 2 the figures for clothing, articles of daily use, and fuel listed in Table 1 to produce data on overall benefits received by urban residents (see Table 3).

We can see the effects of subsidies on the distribution of residents' income by adding residents' earnings to the benefits ultimately received by residents as indicated in Table 3. First, we calculated the Gini coefficient after

Table 3: Total Amount of Subsidies Benefitted by Urban Residents in 1987 (Grouped according to Income Brackets)

	Lowest	Low	Lower Middle	Middle	Upper Middle	High	Highest
Per Capita Benefits Received (Yuan)	64.73	66.61	67.52	67.64	70.44	74.22	78.70
Household Size (persons)	4.39	4.18	3.94	3.73	3.51	3.37	3.12
Benefit Received per Household	284.16	278.43	266.03	252.30	247.20	250.12	245.54

Source: "Survey Data on Household Income and Expenditure of Urban Residents Throughout the Country for 1987" -- China Statistics Publishing House

difference between the state and market price of pork is just over 10 cents. In order to reduce this 10 cents difference, the state had to subsidize 60 cents per kg. With such a poor effect of subsidy it would be better to do away with subsidies and lift price restrictions.

Based on the data given in Table 2, we can only calculate the welfare rent obtained by urban residents from farm

subsidies were added, and represented this by  $G^{**}$ . As  $G^{**} = 0.13559$ , we found that  $g^{*} = G^{1987} - G^{**1987} = 0.126$ . As  $g^{*} > g$ , it shows that the situation of uneven income distribution has been further ameliorated. Second, the Oshima index was further reduced. We used  $O^{**}$  to indicate the index subsequent to the addition of subsidies and found that  $O^{**} = 1.995$ . Third, we calculated the effects of subsidy benefits on residents' income

Table 4: Effects of Price Subsidies on Household Income for 1987

	Lowest	Low	Lower Middle	Middle	Upper Middle	High	Highest	Average
Ø**	12.29	10.11	8.76	7.53	6.71	6.04	4.98	9.04

Ø\*\*. Put another way, what we calculated was the extent of residents' dependence on state subsidies. See Table 4.

From Table 4 we can see that price subsidies provided by the state have produced great effects, with opportunity earnings received by residents from subsidies amounting to 9.04 percent of their cash income. Moreover, the lower the income, the greater the role of subsidies. The table also shows that urban households are highly dependent on state subsidies. If the state reduces its subsidies, residents will have to increase their expenditure and this will make things particularly tough for the low income bracket.

All-round and meticulous calculations using Model 3 are impossible first, due to the volume of work involved and second, because data are difficult to obtain. Nonetheless, price subsidies provided by local financial departments to residents are substantial. In the year 1987, subsidies provided by local financial departments amounted to 25.965 billion yuan, of which 60 to 70 percent were price subsidies. Because of the huge disparities between subsidies provided by different localities and the difficulties involved in actual computation, we can only make a rough estimate on the basis of central subsidies. It is estimated that price subsidies provided by local financial departments accounted for five to eight percent of residents' income. For instance, Beijing residents benefited more from their local government than residents in other localities.

**IV. Conclusion** From the data obtained through the above calculations we can see that residents' welfare benefits from price subsidies alone account for 10 to 15 percent of their income, or as high as 20 percent as far as the low-income households are concerned. If the welfare income obtained by residents from allowances for services provided by the tertiary industry, housing, old-age pension, and other considerations are taken into account, even a conservative estimate will bring the total to over 50 percent of residents' cash income.<sup>5</sup> The direct effect of this type of nonmonetary welfare income is that it obscures the true cost of labor, renders it impossible to measure income distribution with a unified monetary yardstick, reduces the degree of openness of income distribution, and makes it difficult to determine whether or not distribution is fair. Besides, the fact that the huge nonmonetary welfare income has become an important means of distribution and been institutionalized will have a widespread and farreaching impact on economic development and structural reform.

1. As an invisible rope, nonmonetary welfare income has made residents completely dependent on the state. Accordingly, the state has assumed the obligation of

insuring its people against all risks, from food to consumer items, from the time of their birth to the time of their death. It is true that the formation of this type of nonmonetary welfare system has its specific historical background. However, the fact that the state failed to relinquish its obligation as the "provider" after the introduction of market risks into economic activities subsequent to the implementation of the reform and open-door policy has produced a huge distortion, with the state hoping to boost incentive through the introduction of market risks on the one hand, and residents turning to the state for justice whenever economic fluctuations occur, on the other. As a result, residents' risks were converted back to huge state subsidies. This explains why subsidies have registered a sharp increase rather than a downturn since reform. The outcome is that for every step taken to deepen the reform, the state has to pay out another substantial sum as allowances for the risks involved. The crux of the problem also lies in the fact that nonmonetary welfare income has obscured the relationship between the state and residents in respect of benefits. It can neither clearly define the interests of individuals, nor clearly spell out the obligations of the state. In the end, the huge subsidies not only failed to give much impetus to reform but also posed difficulties to the market-oriented reform.

2. The direct effect of nonmonetary benefits on the distribution of residents' income is egalitarianism. From the calculations made in the previous section we can see that the Gini coefficient dropped and the degree of egalitarianism increased once non-monetary subsidy benefits were added. Basically this equalizing process is brought about in two ways: One is through household size. The fact that subsidies are distributed on a per capita basis in the main means that the larger the household, the greater the benefits will be. From Table 3 we can see that although per capita benefits are fewer in big low-income households than in high-income households, in absolute terms they are greater than in high-income households when the population factor is added. The other is the level of consumption. Since high-income households have a higher consumption level, the proportion of their purchases from rural fairs is obviously larger than that of low-income households and their consumption of basic commodities is proportionally smaller than that of low-income households. Hence, the benefits obtained by high-income households from subsidies on basic commodities are proportionally fewer than those obtained by low-income households. This kind of distribution of benefits on a per capita basis is essentially an extension of distribution in kind under the traditional system and basically has nothing to do with the improvement of labor efficiency.

3. This mode of distribution of benefits attached to material forms will slow down the transformation of the consumption pattern. The presence of heavy subsidies has artificially forced down the price of primary consumer goods, making consumers reluctant to give up their subsidy benefits too soon. Take food for instance. The opportunity reduction in the cost of food purchase per person per year may amount to over 60 yuan, which is not a small sum for urban households. Many households may prefer to eat better but do not have sufficient means to buy good rice at 80 cents per jin from the free market. Variations in the Engel coefficient between the years 1981 and 1988 may also serve as an illustration, although the general trend is one of decline. The coefficient registered at 0.56 in 1981 and 0.51 in 1988,<sup>6</sup> with several major rebounds in between. It is expected to bounce back a little in 1989. Even so, the five percentage point drop is far from commensurate with the rapid growth in income during the 1981-1988 period. After comparing the effects of subsidies in Eastern and Western Europe on consumer demand, some Western scholars pointed out: In the West, consumer demands are basically in accord with the Engel law but this is basically not the case in the East European countries,<sup>7</sup> or in China, for that matter. The reason is that subsidies as a means for distributing benefits have distorted prices, affected the normal variations of the consumption pattern, and hindered structural changes in the course of development.

4. The intervention of subsidies on economic life has created huge disparities between state and market prices. The resultant enormous welfare rent has become the hotbed for profiteers. Many lawless persons have capitalized on the price difference to reap windfall profits. This is a major reason for the unfair distribution of income.<sup>8</sup>

In short, the state has been trying to cut residents' risks through this kind of distribution of benefits attached to material forms, so that residents can adapt themselves to the process of reform. This is perhaps some sort of tribulation that our reform has to go through. However, if we continue to unduly rely on huge subsidies at this stage, we will not only distort the distribution of income but also seriously hamper economic development and structural reform. Although the acceleration of the monetization of income is imperative under the circumstances, it is by no means easy to achieve. We have to proceed from economic operation and structural reform. It is most important that we must not always rely on readjustment of economic operation in material form to boost market reform. For instance, in trying to lower the rate of inflation we cannot resort to subsidies, price freezes, and rationing all the time. These measures may prove effective in the short term but their long-term cost is too high. We should combine economic operation with market reform, for this is the only way to reduce expenditure on subsidies and accelerate the monetization of income. From the angle of economic operation, we should gradually reduce the proportion of nonmonetary

distribution, so that the extent to which the state acts as the "provider" will be changed in the direction of monetization. This will be of great help to us in determining the main bodies of interests and making readjustments of economic behavior. Specifically, we should first turn concealed subsidies into open subsidies and change the mode of distribution of benefits attached to material forms. This will increase the degree of monetization and give distribution a greater degree of openness. On the other hand, this will give residents greater choice and will have an obvious effect on the improvement of the consumption pattern. Next we should target the subsidies. What this means is that we should cut all-round subsidies by targeting the areas to be subsidized in order to achieve higher subsidy efficiency. From the data we obtained through the above calculations, we can see the following: First, the low-income bracket is more dependent on price subsidies than is the high-income bracket. This provides the basis for targeted subsidies. Second, the varieties of subsidies should be cut. For instance, subsidies for pork and eggs should be gradually reduced. There is no need to sustain an extremely small difference between state and market prices by means of large subsidies. What is more important is that we should sort out subsidies provided by various localities and units with the aim of gradually reducing them. Using targeted subsidies to replace fully-fledged welfare subsidies can effectively reduce the interference of subsidized state prices on economic life and increase the degree of monetization in income distribution. Third, the readjustment of the price system to gradually narrow the gap between state and market prices will help cut subsidies and reduce rent. This not only provides an effective means for curbing profiteering but will pave the way for the development of market forces, particularly the development of a balanced price system. No doubt this is important in accelerating the monetization of income. From the angle of economic structural reform, the mass presence of nonmonetary forms in income distribution originated from the idea of "paternal love" under the traditional system, which believes that the state has the obligation to "provide" for residents' needs. It blurs the relationship between the state and residents in respect of benefits and results in the fact that laborers can only obtain benefits through reform while the risks are borne by the state. In order to overcome this phenomenon, the fundamental task lies in reforming the system of property rights. We must gradually define the economic relationship between the state and enterprises and between the state and the individuals, thoroughly put an end to residents' dependence on state subsidies, and pave the way for the fundamental solution of the problem of nonmonetary income.<sup>9</sup>

#### Footnotes

1. According to the Ministry of Finance, "in order to ensure a stable life for the people, subsidies are provided for certain commodities to bridge the gap between the purchase and selling prices and make up losses." They



include subsidies for: 1) grain and oil; 2) nonstaple food; 3) coal; 4) cotton; and 5) subsidies for losses incurred from daily consumer goods. They do not include subsidies for rent or tertiary industry services, such as transport and medical expenses, nor open subsidies. Unless otherwise stated, the above definition shall apply when the term price subsidies is discussed. The origin of price subsidies is very complicated. Apart from the central financial departments, local authorities, collectives, and other units also have to provide substantial amounts in subsidies. Data on the latter are difficult to obtain. Unless otherwise stated in calculations, price subsidies refer specifically to amounts provided by the central financial departments.

2. Price subsidies are usually calculated as a proportion of total revenue. However, the caliber of the two are not quite the same. Subsidies should be calculated in relation to central revenue. This percentage is reckoned to be as high as 63.96 percent during the Sixth 5-Year Plan. The 40 percent cited here is a conservative estimate.

3. Equilibrium price originally refers to price based on equilibrium supply and demand in a totally competitive market situation. The theoretical equilibrium price mentioned here is the equilibrium price in the minds of the policymakers who formulated the subsidy policy and is close to the price of farm and sideline products voluntarily sold by the peasants.

4. The formula can be found in "Western Economics and Statistics" published by the Central Broadcasting and Television University.

5. Some comrades reckoned that the welfare income obtained by Chinese workers from state subsidies, including housing and grain allowances, amounts to about 80 percent of their average wage income. See Li Tiejun [2621 6993 6511] and Zheng Deming [6774 1779 2494]: "A Tentative Discourse on the Conditions for and Characteristics of the Attaining a Relatively Comfortable Standard of Living," JINGJI RIBAO, 17 July 1987.

6. *China Statistical Yearbook*, 1989, China Statistical Publishing House.

7. V. Cao-Pinna and S.S. Hatalin: "East-West Comparative Consumption Patterns," New York, 1979.

8. Ibid.

9. Zhao Renwei [6392 0086 0251] et al: "The Tendency Toward Barter Trade in Market Reform," JINGJI YANJIU, No. 4, 1989.

### Reform of Ownership System Viewed

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[Article by Yang Jianbai (2799 1017 4101) of the Economic Research Institute under the Chinese Academy of Social Sciences, written in March 1990, edited by Hong

Liang (1347 0081): "A Model for the Reform of the Socialist Public Ownership System"]

[Text] The reason socialism is socialism is that it has established a people's democratic dictatorship and a socialist public ownership system in which the laboring people are the masters, and on this basis, implemented distribution according to work. Our country's current public ownership system has many imperfect aspects. It has not yet been able to manifest the principle of means of production truly being owned by the laboring people and of course has not yet been able to manifest a direct linkage between the laborers and the means of production. Thus, we need to gradually improve the system through reform. It goes without saying that the aim of reform is to improve the level of the public ownership system and consolidate the socialist system. We must certainly not use the reforms as a pretext for weakening and dismantling the socialist public ownership system.

In respect of the strategic goal of a structural model for socialist public ownership, I believe that it should have state ownership as its main part, while collective ownership by the laboring masses should be widely and broadly developed. The aim of putting forward this issue is to renew concepts and change the mistaken ideology and force of habit which "stresses state ownership and looks lightly on collective ownership."

What position should we assign to the two forms of public ownership—that is, state ownership and collective ownership? On the systems level, this is a question of the structure of the public ownership system. Seen from the strategic level, this is essentially a question of the deployment of strategic strengths on the economic front. There are two types of strategic guiding ideology: The first is one which stresses state ownership and looks lightly on collective ownership. In this, the state ownership system is in the prominent position, there is no distinction between industries and no differentiation between large and small. Everything is taken on by the state. There is an urgent desire to complete the transition and collective industries are thus merged. The other guiding ideology also has the state in a leading position, taking care of key and major matters. But only the major enterprises and some of the medium-size enterprises which affect the economic lifeblood of the nation are state-owned. The others are mainly organized by the laboring masses and are run collectively. I support the latter strategic guiding ideology and thus propose a socialist public-ownership structure which has the state-ownership system occupying the leading position, while the collective ownership system is developed broadly and widely. Further, these two types of public ownership should coexist for a long time to come. Following the development of the social productive forces, and a long process of development, the two will gradually, through mutual study, mutual supplementing and mutual osmosis, merge into one. This will be true joint, social, and individual ownership.

Socialist public ownership and economic structural reform must stress, on a high level, mass character and democracy. The key lies in placing the laborers, who are the masters of the means of production, in their due position, so as to fully motivate the enthusiasm of the laborers. The "Law on Industrial Enterprises Owned by the Whole People" which our country promulgated in 1988, stipulates: "Staff members and workers have the right to participate in democratic management of enterprises" and that "the staff and workers congresses are the basic form by which enterprises will implement democratic management, and are the organs through which staff members and workers can exercise their democratic management rights." Our country's Constitution also stipulates that collective economic operations have the right to implement democratic management. Further, in the "Regulations for Cooperatives," it has always been stipulated that the cooperative members' committees or congresses are the organs through which cooperative members can exercise their democratic rights. The directors and supervisors elected by the congresses constitute the board of directors and board of supervisors, which exercise the rights of management and supervision. It can be seen that, on the theoretical and legal levels, our country has always placed great importance on mass character and democracy. However, there has always been a great disparity between the theory and the practice. Some economic units, even up to the economic reforms, have not placed reliance on the masses and democratic management on their agenda. Thus, there is a need to raise a cry of warning and make known the strategic importance of mass character and democracy. In a socialist economy, the right to manage is a basic right of the laborers. Only if enterprises rely on the masses and implement democratic management will the laborers truly be able to become the masters of socialist enterprises and thereby, on the overall level, become the masters of socialist society. Thus, this should become the basic orientation in the reform of the management structure. Mass, democratic management must of course be combined to form a unity with scientific management and an authoritative commander, that is, with a manager (director) responsibility system. We must not separate the two.

In brief, socialist democracy involves both political democracy and economic democracy. Every citizen must be able to exercise democratic rights in respect of his own unit. The realization of democracy requires that it be given a concrete form. Economic units implementing democratic management is a concrete realization of the democratic rights of the laborers. Taken further, democracy in industrial departments and economic units is a basis for political democracy. If all enterprises and economic units realize democratic management, the democratization of the socialist economy will form a firm basis for the democratization of socialist politics.

Below, I will talk about the reform of the state ownership system and the development of collective ownership.

On the level of theoretical principles, all the socialist public-ownership enterprises in our country correspond to the free associations of laborers envisaged in their time by Marx and Engels. However, of course at present these are but alliances under commodity economy conditions. In our publicly owned economy, the nature of all labor in social production is joint labor (the negation of wage labor). The forms of ownership of the means of production, regardless of whether we speak of state ownership or collective ownership, are both joint, social individual ownership. This is the theoretical basis on which we are carrying out reform. It must be pointed out that the individual ownership envisaged by Marx in those days was not the reestablishment of the private ownership system.<sup>1</sup> It was not individual ownership with direct appropriation by individuals. Rather, it was individual ownership premised on joint appropriation by society. "Joint and social" are two very important restricting terms. The addition of these two restricting terms shows that this individual ownership means the same as socialist public ownership or communist public ownership. Some people interpret the reestablishment of individual ownership as spoken of by Marx as "private ownership where everyone has their own property." This is a complete misinterpretation.

#### 1. On the Question of the Reform of the State Ownership System

What we now commonly refer to as the whole-people ownership system is actually the state ownership system. This is because, under conditions where states still exist, only the state can represent the entirety of the people. Some people want to change this to a "social ownership system". However, this is but semantic fiddling. This is because, if property is not owned by part of the society, but owned by the entire society, the representative of the entire society is still the state.

Our reforms must firmly adhere to the guiding position of the state ownership system. This is because we are still in the primary stage of socialism and there still exist diverse economic components. Between the different ownership systems, there exist contradictions on the economic interests level. Collective economic operations and cooperative economic operations only represent the interests of the laborers of those enterprises. Meanwhile, although individual and private economic operators are, under the present conditions of the productive forces, important supplements to the socialist economy, in the end what they seek are private interests. Only the state-owned economy represents the interests of the entirety of the people. This determines that the state must control the lifeblood of the national economy, and that we must firmly maintain the leading position of the state-owned economy. Only in this way will it be possible to motivate the enthusiasm of various elements and not allow the interests of a minority or of individuals to overwhelm the interests of the whole society. In another respect, we must recognize that there are many deficiencies in our present state ownership system and thus we need to improve it through reforms. For many years now, our

guiding ideology has been to talk about "state-owned" and "state-run" as though they mean the same thing. This is very unwise. In the reforms, it is clear that we need to separate ownership rights and operating rights. The contracts and operational responsibility systems we have trial-implemented have already realized some successes. I believe that the current reforms should stress the resolution of two major problems.

First, the number of state-owned enterprises should be reduced and we should concentrate manpower and funds in properly running undertakings which affect the life-blood of the national economy. It would be best for small-scale enterprises and some medium-size enterprises to be subject to compensated transfer and turned into enterprises collectively owned by the laboring masses. The tens of thousands of small-scale factories, and hundreds of thousands of commercial, retail, food and drink and service enterprises do not really need to be run by the state. Experience has proven that operations ranging over a broad area and with many outlet points cannot be managed properly or well. They incur losses and these have to be subsidized with state funds. This aspect needs to be fully understood in the ideology guiding reform.

Second, the basic model of state enterprise reform should involve state ownership but collective operation. Collective operation is cooperative operation. Basically, the roots of this model lie in the experiences of the Paris Commune. In the implementation of this model in our country, the leasing form could be adopted. Engels said that socialism does not abolish leasing. Leasing will involve the lessees paying to the lessor a certain amount of rent in accordance with the property leased. The orientation of operations should be stipulated in the contract. A complex problem will be that involving the appraisal of assets and the retention and use of depreciation funds. This is the problem of guaranteeing the value and increasing the value of assets. During the lease period, not only the assets use rights, but also the assets ownership rights will be transferred to the lessee. The lessees in accordance with the needs of economic development and market changes will decide for themselves on operational matters and will not be subject to guidance or interference from the original owners. The key in implementing this model lies in the fact that the leases will be collective leases, not individual leases and after the leases are implemented, there will be collective operations. That is, there will be a reliance on the masses of staff and workers and democratic management will be implemented. If this is not the case, it will not be possible to talk of collective operations or cooperative operations. I believe that this should be the basic orientation in the reform of state-owned enterprises. Of course our country lacks a democratic tradition and thus the implementation of democratic management will require a process over time. We cannot do it in a mad rush or be overeager for success.

The contract system we are trial-implementing in our country at present can only be transformed into state

ownership and collective operation through being improved. The first problem is to change individual contracts into contracts where one person takes the lead, the entirety of members contract and there are collective operations. Thereby, scientific management and democratic management can be implemented and it will be possible to fully motivate the enthusiasm of the staff and workers. There are already some advanced units in our country like this, with the Capital Iron and Steel Works being representative of them. As to the short-term activities of contract enterprises, through scientific management, achieving the unity of responsibilities, rights and interests, and allowing the role of self-restraint to come into play, it will be possible to realize a change in the situation. The profits handed up by contract enterprises will be equivalent to rent. A serious defect in the present practice is that taxes and profits are mixed together. Taxes and profits must be separated, so that enterprises pay taxes in accordance with regulations. In looking back at the source, the origin of this confusion was the mistaken decision to have tax payment replace profit delivery. People with even a basic knowledge of economics know that paying taxes in accordance with regulations is an obligation to the state which all enterprises must fulfil. This is also true of state-owned enterprises and, regardless of whether they are directly-administered or contracted or leased out and whether they make profits or incur losses, all must pay their various taxes to the state. Profits are, by their nature, expansion of funds and, by convention, the benefits go to whoever invests. As the funds belong to the state, the state should naturally obtain the profits. How can profits and taxes be mixed together? Thus, regardless of whether we speak of contracts or leasing, the contract or lease should not include an amount of tax to be paid.

## 2. The Question of Developing the System of Collective Ownership by the Laboring Masses

Many economic undertakings closely involve the laboring masses themselves. Many businesses engaged in the production and circulation of the means of consumption or closely involved with the means of consumption (including businesses which manufacture the means for producing means of consumption), are closely linked with the laboring masses. For such undertakings by the masses themselves, we should mobilize the masses, rely on the masses and let the masses organize these undertakings voluntarily and run them by themselves. In this way cooperative enterprises and collective enterprises which are owned collectively by the laboring masses will be widely and broadly developed. Clearly this is a strategic issue. Here what I mean by development is that new businesses will be established while businesses already established will be raised in quality through reform and readjustment.

The qualitative determination of cooperative enterprises and collective enterprises is collective ownership by the laboring masses. Those enterprises which are not owned

by the laboring masses should not be considered collective enterprises. Participation in cooperatives and collective enterprises should be voluntary and there should be common interests, common ownership, joint administration and sharing of benefits. They have asset ownership rights—the assets are commonly owned. They have operational management rights—there are independent operations, democratic management and joint administration. They have autonomy to distribute their necessary products and surplus products—there is distribution according to work, sole responsibility for profits or losses and sharing of benefits. These are standards which cooperative enterprises and collective enterprises should commonly respect.

Although our country's cooperative enterprises and collective enterprises are spread through urban and rural areas, there are still some blank spots. For example, consumer cooperatives, credit cooperatives, residential cooperatives and other service cooperatives have basically not been developed in the urban areas. In particular, we should stress the development of consumer cooperative organizations in urban areas (the supply and marketing cooperatives should play the role of consumer cooperatives in the rural areas). In our guiding ideology on socialist commerce, we have always stressed state-owned operations and looked lightly on cooperatives. In recent years, market trade in urban and rural areas has flourished and individual commercial concerns and private businesses have seen swift development. It is only consumer cooperatives which have not been given attention. Actually, every person is a consumer and the majority of the income of individual laborers is used on purchasing consumer goods (consumer goods in the broad sense includes all sorts of labor and one's accommodation). For shops that sell consumer goods, which are closely linked with the lives of the masses, we can adopt the form of cooperative operations and mobilize the consumer masses to run these themselves. Why should they have to be run by state commerce? It seems that this needs to be recognized and resolved from the high level of strategic guiding ideology. Examining this socially, consumer cooperatives could become links joining social production and final consumption in a planned way. That is, through this form, production, distribution, exchange and consumption will form an integral unity, and thereby, between production and consumption there will be a great strengthening of planning and a great reduction in blindness.

Our country's present cooperative enterprises and collective enterprises require reform and readjustment, and this task is certainly very heavy. In respect to agriculture, we need to maintain the policy of combining centralization and decentralization and we must not change this policy lightly. The supply and marketing cooperatives should abandon the state-owned form and revive the original features of cooperative organizations. Further, they should develop in the direction of comprehensive entities providing overall service. The main task of the township and village enterprises in the urban areas

should be to gradually change into organizations which are collectively owned by the laboring masses, in fact as well as in name. Thus reform could commence with the implementation of the cooperative shareholding system and all laborers within an enterprise would become shareholders. In this way, individual ownership and collective ownership would be joined in a unified entity. This would increase laborers' concern for the collective enterprise and would motivate their enthusiasm on the labor and management levels. Then democratic management can be implemented. As to enterprise funds other than those from the laborers, in general they should be obtained as credit. Of course, under the present economic conditions in our country, we should not preclude the drawing in of funds from outside the enterprise (such as issuing shares and having shareholders share in the division of profits). However, this in fact will give rise to mixed ownership and such operations would not be pure collective ownership by the laboring masses.

The original meaning of cooperative enterprises and collective enterprises was that they were joint organizations of the laborers. However, as far as the cooperative economy and collective economy are concerned, apart from the development of the individual enterprises themselves, there is also a need to develop links between the various enterprises. Thereby there will be formed combined and expanded joint organizations (such as alliances, groups and centers). Following the development of the productive forces, the development of joint organizations will transcend regional borders and the divisions between ownership systems, forming alliance operations which have a wide span and are multileveled. An alliance is not a merger or joining of enterprises, as the original enterprises do not lose their independence and much less do they have unified accounting or eat from "a big pot." However, in the process of development, there will be mutual learning and osmosis, leading to new combinations. This is a requirement of the objective patterns and is difficult to avoid.

### 3. On the Future and Prospects of the Two Types of Ownership

The whole-people ownership enterprises, that is, the state-owned enterprises, through a long period of collective operations and democratic management, will naturally see a strengthening of their mass character and democracy. In fact, they will draw in the collective economy mechanism and will no longer be officially run enterprises. The collectively owned enterprises will, through reform and readjustment, implement common ownership, joint administration and common enjoyment of benefits and naturally they will become enterprises owned by the laboring masses themselves. Then, through further implementing alliances over a wider span, they will no longer just represent the interests of a small number of people, but will move in the direction of socialized operations. Thereby, on the ownership level, they will gradually move closer to whole-people ownership operations and eventually will not differ essentially from them. The prospects of alliances must not be

limited. Engels when commenting on the plan by the Paris Commune to join all cooperatives in a coalition, said: "This sort of organization should not only have an alliance of workers in each factory as its base, but should have all alliances form a large coalition. In brief, this organization will, as Marx completely correctly pointed out in 'The Civil War,' inevitably lead to communism."<sup>2</sup> This is the future and long-term prospects for socialist public ownership.

#### Footnotes

1. See "Collected Works of Marx and Engels" Vol 23 p 832 and Vol 48 p 21. The author of this article has expounded on this question in ZHONGGUO SHEHUI KEXUE [CHINA'S SOCIAL SCIENCES] 1988 No 3, and in GUANGMING RIBAO of 15 Apr 1989.

2. "Selected Works of Marx and Engels" Vol 2, pp 333-34.

#### Analysis of Supply, Demand in 1989

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[Article by Zhang Ganming (1728 2413 2494): "Analysis of 1989 Supply and Demand Situation"]

#### [Text] I. Manifestations and Direct Causes of Temporary Amelioration of 1989 Supply and Demand Contradictions

In the year and more of improvement and rectification great changes have taken place in the overall pattern of the national economy. The contradiction between overall supply and overall demand has reached a temporary amelioration. This can be seen not only in the gradual slowing of inflation but also in the appearance of a "buyer's market" in a considerable number of commodities. The results obtained by improvement and rectification are larger than it appears purely from the annual figures. In 1988 the national sales price index was 18.5 percent and in 1989 it was 17.8 percent, an apparent decline of .7 percentage points. However, this is an average figure and cannot accurately explain the matter. This is because the January, 1988 price index was 9.5 percent but by December it had risen to 26 percent. In January 1989 it was 27 percent but by December it had fallen to 6.4 percent. Thus although the annual average was 17.8 percent, the final result is truly the result achieved by improvement and rectification. That is, the annual retail price ratio rose 17.8 percentage points over the previous year and although the magnitude of the increase was lower than the previous year's, the new price increase factor was only 6.4 percentage points, clearly lower than the 15.9 percentage point level of the previous year. From this we can explain why, in comparing the two years, the difference in annual price index is not great but the difference felt by the masses was very great.

In 1989 the annual gross value of national production rose 3.9 percent over the previous year, 1,567.7 billion

yuan, in absolute terms. National income grew approximately 3.7 percent over the previous year, reaching 1,300 billion yuan, overall social supply was 1,640 billion yuan, and overall social demand was 1,770 billion yuan. According to 1988 price levels, demand was greater than supply by approximately 130 billion yuan but basically what was absorbed by 1989 price increases brought supply and demand into general balance that year.

Estimated on the basis of the situation in previous years, overall annual demand for 1989 could exceed 2.4 billion yuan. Continuing to reduce fixed assets investment by 50 billion yuan and adopting a series of measures to cut down consumption, reduced society's consumption demand by approximately 130 billion yuan over all. This includes a reduction of 70 billion yuan in residents' consumption due to guaranteeing the value of savings deposits, guaranteeing the value of bonds and pooling resources. Controlling group purchasing reduced group consumption demand approximately 10 billion yuan. Cutting back fixed assets investment reduced related consumption demand approximately 10 billion yuan. Sluggish elements created by the previous year's panic buying reduced consumption over 30 billion yuan. In this way the rate of difference between overall supply and demand dropped by half from 1988's 16.2 percent to about 8 percent so that some of the new price increases of 1989 clearly declined.

Reduction of overall demand is also manifested in consumption and investment. Overall annual employee wages increased 14 percent over the previous year reaching 264 billion yuan, of which bonuses increased 23 percent over the previous year, the increase declined 18 percentage points over the previous year, being about 55 billion yuan. Adjusted for price increases, the actual volume of wages declined about two percentage points over the previous year. The average per capita living income of urban families was 1,260 yuan, an increase of 12.6 percent over the previous year's 1,119 yuan. The average peasant net income was 602 yuan, an increase of 10.5 percent over the previous year, but adjusted for price increases, it actually declined.

In 1989 severe measures were adopted with regard to social bloc consumption. In terms of the role they played they primarily restricted purchases of 29 commodities, including automobiles and high grade consumer goods, they rigidly cut back state agency administrative expenses, imposed a banquet tax, expanded good government and anticorruption activity, prohibited entertaining and gift giving in official business, prohibited kickbacks, promptly strengthened administration of tax collections from individual businesses and imposed individual income regulatory taxes. To varying degrees these played a role in restricting social bloc purchasing power. Social bloc consumption rose only 4 percent over the previous year, about 69 billion yuan. Adjusted for inflation it actually declined 15 percent. This is the lowest growth rate since 1979.

Beginning in October 1988, after over a year of hard work, over 180,000 projects were stopped or slowed down, which could cut back investment by 67.5 billion yuan. This included 2,500 buildings which cut back investment by 26 billion yuan. In 1989 new construction projects of nationally owned units were cut back by half over 1988. Of these, capital construction projects were reduced 36 percent and technological transformation projects were reduced 64 percent. The scale of society's fixed assets investment dropped about 11 percent over the previous year, absolute investment was about 400 billion yuan, nearly 50 billion less than the previous year. Of this amount, nationally owned fixed assets investment was about 250 billion yuan, 30 billion yuan less than the previous year, or a decline of 10 percent. Of nationally owned investment, 153.8 billion yuan in capital construction was completed, 36.3 percent less than the previous year, or a drop of 2.3 percent. Technological transformation investment completed was 78 billion yuan, 20.06 billion yuan less than the previous year, or a drop of 20.5 percent. The volume of social fixed assets work actually completed dropped about 20 percent over the previous year. That is, the actual reduction over the previous year was 80-90 billion yuan.

## II. Decline in Benefits Is Basic Cause of Intensification of Supply-Demand Contradiction in Recent Years

The current slowing of inflation does not mean that the overall problem of imbalance has been basically resolved. On the contrary, the supply-demand contradiction has only been deferred. By the end of 1989, surplus purchasing power of the nation's residents reached roughly 700 billion yuan. The State Foreign Exchange Management Bureau estimates that by the end of 1989 China's remaining foreign debt was over \$40 billion. According to the International DECD Organization [expansion unknown] it is probably about \$50 billion. Beginning next year, according to the State Statistical Bureau, the annual payments on foreign debt will be nearly \$10 billion. It happens that at the same time that the peak debt-repayment is also the time when enterprises of "three sources of capital" are remitting profits. This indicates that the contradiction between supply and demand is more severe than last year, and that the temporary stability in prices has only come after the adoption of a series of stopgap measures.

With the sustained high rate of economic growth in recent years, why has the supply-demand contradiction intensified? To grasp this problem correctly, perhaps we should first understand the essence of the high rate of economic growth in the past few years. If economic growth depends on increasing labor productivity and improving economic benefits, then naturally the faster the better. The issue now is that our economic growth was achieved by depending on expanding investment. The problem with this kind of growth is that the growth in overall demand is faster than the growth in overall supply. In 1979-1989 national income grew an average of 9.6 percent annually (at comparable prices) but national income used for the same period grew an

average of 15.9 percent annually (at current prices). During the last five years of this period, national income grew annually on average less than 9.2 percent (at comparable prices) but national income used grew annually 18 percent (at current prices). The national economy's goods consumption rate rose from 57.8 percent in 1984 to about 65 percent in 1989. Each year nearly 100 billion yuan more of goods were consumed (this makes sense, in the light of the increase in consumption of goods in the last few years due to the increase in the proportion of light industries in the industrial structure, but this portion is not large). Calculated at comparable prices, the investment coefficient (investment needed for newly added unit national production gross value) was 1.59 in 1984, but doubled by 1989. Since 1983, nationally, the value of industrial production of each unit added requires an increased investment (fixed assets and floating capital) of 1.45 units. From 1979-1989, nominal financial deficit totaled about 74.6 billion yuan. In addition, according to incomplete statistics, foreign and domestic loans made by state finances during the same period convert to about 120 billion renminbi. If, following international practice, income from domestic and foreign debt were deducted from revenues during this 11-year period, the financial deficit would have been enormous every year, with the total reaching no less than 196 billion yuan, or an average of about 20 billion yuan per year. State domestic and foreign debt reached an unprecedented peak and they will have to be repaid from future national income. In the past year or more of putting things in improvement and rectification, the severe retrenchment policies adopted, primarily administrative means, have resolutely reduced investment and consumption. While the price index still rose nearly 18 percent, current supply and demand are basically in balance. This is a hard-won achievement, not only paid for by "half-finished projects," maintenance expenses and lowering the standard of living of urban and rural residents, but also had an impact on sales in the market. However, it did secure some breathing space for normal development of the national economy. The essence of the problem now is that however many problems are seen from the surface of the entire economy, for example, the structure is out of balance, finances are tight, national debt is heavy, unemployment is increasing, the central problem is that economic benefits are declining. By rough estimates, all things remaining equal, if current money-losing enterprises reduce losses by 30-40 percent, then finances may be out of the red. If the rate of material wastage in the entire national economy recovers to 1984 levels, maintaining the value of savings deposits and various debentures can be eliminated. Of course, the decline in economic benefits in recent years is national in scope. If we talk only about enterprise economic benefits and compare them with the First 5-year Plan period, the depreciation rate is higher, bank interest rates are higher, and the retirement burden is heavier all of which diverts enterprise profits. This probably cannot be considered a decline in benefits of the enterprise itself, but can be referred to as a decline in



the ratio of investment and output of the entire society, otherwise we would not have such a high inflation rate.

### III. Market Weakening Is a Containing Factor in the Current Economy

The new situation that appeared in 1989 was a weakening of the market, which led to a decline in enterprise economic benefits and a shortage of circulating funds. Weakening of the market appeared in industrial products—primarily consumer goods—being unsalable. Adjusted for inflation, the total of commodity sales in 1979-1988 on average grew about 12 percent per year but in 1989 total of commodity sales grew a nominal 8.9 percent, which when adjusted for inflation was an actual decline of about 7.6 percent. Stagnant market sales caused commercial businesses to reduce purchases, and the inventories of manufactured goods became large, enterprise circulating funds were short and loan payments were in arrears. In January-November, 1989, the production and marketing rate of over 150,000 industrial enterprises at the county level and above was 95.1 percent, a decline of 3.2 percentage points over the same period in the previous year, and the lowest year in nearly a decade. In the 1989 national ownership system budget, nominal sales income of industrial enterprises grew 12 percent over the previous year, but adjusted for price factors, actual sales declined. The profits tax rate declined from the previous year's 19.3 percent to 17.27 percent. Gross profits declined 18.8 percent over the previous year, profit levels were even below 1987. Year-end funds for producing finished goods was 87.9 billion yuan, an increase of 80 percent over the previous year. This situation naturally caused enterprises to cut back production and orders, while creating the situation of a violent drop after a rise in industrial production rates. Because funds were settled in finished products, the proportion of circulating funds used by industrial enterprise finished products funds in the 1989 year-end budget rose from 20.2 percent at the beginning of the year to 28.6 percent. In addition, according to statistics of 6,000 large and medium-size enterprises, use of enterprise quota circulating funds in 1989 increased 27.2 percent, of which the increase in reserve funds was only 11.6 percent, much lower than the increase of 90.4 percent for funds to produce finished products. The proportion of reserve funds dropped from 57.8 percent to 50.7 percent. Adjusted for prices, the production reserves were lower than the previous year. This caused enterprise reproduction conditions to deteriorate and production development reserve strength was seriously inadequate. Weak sales very quickly evolved from rising industrial stockpiles and funds used to lower profits and taxes, inadequate utilization of capacity and increasing losses. In short, expenses increased, costs rose, and labor productivity declined. In 1989, the income taxes, regulatory taxes, and profits handed over to upper level finance units by state-run industrial enterprises was 16.431 billion yuan, a 28.3 percent drop over the previous year. The losses of money-losing enterprises rose 1.2-fold, the area of losses expanded 5 percentage points

over the previous year, the number of money-losing enterprises increased 44.9 percent over the previous year. According to preliminary statistics, state financial subsidies for enterprise losses were over 52 billion yuan, an increase of 30 percent over the previous year. In the 1989 budget, comparable product overall costs of state-run enterprises were 87.876 billion yuan cumulatively, spending 22.4 percent more than the same period in the previous year or three times the comparable products cost increase of the previous year. The labor productivity rate calculated according to the gross value of production rose a nominal 1.6 percent over the previous year (the rate of increase declined 7.7 percentage points over the previous year), but taking into account the factor of the large increase in comparable costs, the labor productivity rate calculated according to net value of production actually declined. In addition, state financial price subsidies were calculated at 40 billion yuan, an increase of about 16 percent over the previous year. At the same time, since the second quarter of 1989, the rate of industrial production nation-wide dropped monthly so that by October, the gross value of production had declined 2.1 percent over the same period in the previous year and the rate of industrial production for the entire year of 1989 declined from the previous year's 20.7 percent to 6.8 percent.

Faced with the decline in enterprise economic benefits and the shortage of funds, a considerable number of comrades felt that the retrenchment policy had been overdone. Actually, in the first nine months of 1989, the cumulative total of loans issued by banks and credit cooperatives nationwide increased 50 billion yuan less than the previous year. This is primarily because of cutbacks in fixed assets investment and rural and township loans, including just 7 billion yuan less in industrial and commercial enterprise circulation fund loans compared to runaway currency 1988. From January to October nationwide bank and credit cooperative loans increased 106.2 billion yuan over the first of the year, roughly comparable to the loan schedule of a normal year. After November and December, bank loans not only were larger and issued more rapidly, but in these two months, the increase in loans was almost 100 billion yuan. By the end of the year, the remainder of the nationwide bank and credit cooperative loans had increased more than 200 billion yuan over the first of the year and increased more than 35 billion yuan over 1988. Year-end 1989 industrial circulating fund loans increased 22.4 percent over the previous year (the previous year's increase was 17 percent). Commercial circulating fund loans increased 17.2 percent (the previous year's increase was 16.8 percent). What was really cut back was only fixed assets investment loans. Since circulating fund loans were numerous, why was there such a shortage of funds? It may be primarily for the following two reasons:

1. Capital benefits declined. The increase in value of production per 100 yuan increase in circulating capital was 368 yuan in 1988, but in 1989 it declined to 303

yuan. The number of days to turn around quota circulating capital was 10 days longer in 1989 than in 1988. Each additional day was the equivalent of using 3 billion more yuan in circulating funds. This alone was equivalent to 30 billion yuan in circulating funds.

2. Market weakening. Due to lack of ultimate demand, when goods got to market they did not sell so that the

production and reproduction cycle was obstructed leading to a chain effect. This can be seen from the continued decline in the industrial production rate and the decline in total retail sales of social commodities which began in the second quarter, and in the high degree of interrelation between the two in subsequent months.

**Comparison of 1989 Industrial Production Growth Rate and Changes Commodity Sales Volume**

Month	1	2	3	4	5	6	7	8	9	10	11	12
Growth of industrial production	8.2	7.5	14.8	13.7	11.1	8.7	9.6	6.1	0.9	-2.1	0.9	3.4
Growth of retail sales	20.7	20.0	26.0	20.0	17.2	10.3	6.0	-0.7	-1.1	-0.7	-0.9	0.3

There may be other elements in the shortage of funds. For example, capital supply was out of balance. Funds were really a little tight in some departments and regions: accounts were not settled promptly; triangular debt; as soon as old debts were cleared, new ones piled up; this caused capital to be in even shorter supply, but this was only a derivative.

The explanation of the more than 100 billion yuan new increase in circulating capital loans by nationwide banks and credit cooperatives in the last two months of 1989 without a corresponding increase in the overall industrial production rate but a large increase in finished products funds is that ultimate demand was insufficient and was caused by market weakening. The withdrawal of currency in 1989 depended primarily on deposits and not withdrawal of commodities. This can also be seen as another reflection of the market weakening.

What requires in-depth analysis is, if market weakening was a restraining factor, why did prices continue to increase? We feel that the crux of the problem is that now the market weakening under special circumstances is not market weakening in the usual sense and does not indicate the arrival of a buyer's market, but is a product of the combination of existing economic system and the special conditions of low benefits. First, the pattern of overall demand exceeding overall supply has not changed essentially. Second, prices are still continuing to rise. In a true buyer's market prices are low and are unlikely to rise again. These two characteristics are absent now. The idea that the market is weakening first appeared in April and May of 1989 and was presented more openly in August and September. At the time it was primarily manifested in the slowing growth of market sales and the increase in the number of unmarketable goods. However, present prices have not declined, but have risen. In August and September, 1989, there was a typical wait-and-see attitude: consumers waited for prices to drop and held onto their money, producers waited for sales to peak and insisted on not lowering prices. For a while commercial departments were unable to decide what to buy and what to sell. By October talk about market weakening began to increase in connection with some enterprises that had stopped production. Sales

declined because the state had cut back overall demand, and purchasing power was limited temporarily. Prices rose because the product structure was not rational. On the one hand supply of products suited to the market did not meet demand and prices continued to rise. On the other hand, prices could not be lowered on those high consumption, high grade consumer goods and goods that were produced in large quantities, because the economy was overheated. Enterprises that were losing business caused by lower prices, high costs, and few benefits, were better off to stop production and absorb the labor costs. This is another result of the nonsensical interconnections in the economic system. What gave people pause was that the result of some enterprises stopping production not only was that it did not lead to higher enterprise economic benefits, but on the contrary, labor expenses increased overall, which caused benefits to decline more, creating a vicious cycle. Thus, the so-called "market weakening" in essence was another manifestation of the seller's market. Adopting measures to stimulate demand at the present stage may very well again give rise to the situation of 1988. Conversely, if we continue to reduce demand and cause this weakness to continue, it may very well cause the continued slide in the economic rate. Finding a way to lower enterprise expenses and improve economic benefits is the only true way out.

#### **BAN YUE TAN Interviews Yuan Mu**

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[SEMI-MONTHLY TALKS] in Chinese No 10,  
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[Interview with Yuan Mu, director of the State Council Research Office, by staff reporter Wu Shisheng (0702 1102 3234): "A Light Boat Passing Through Countless Mountains"—date and place of interview not specified]

[Text] Since early this year, the market has experienced continuous weakness; the "chain of triangle debts" has become increasingly burdensome; more and more enterprises have halted their operations, either partially or entirely; and industry has been developing at a slow pace.... [ellipses as published] These phenomena have aroused widespread concern in society, and everyone is talking about them. How should we, in fact, understand



the current complicated economic situation. With this question in mind, this reporter interviewed Yuan Mu, director of the State Council Research Office. Yuan Mu's general view is that China's economy is developing in the course of economic improvement and rectification and in-depth reform.

Reporter: After stabilization of the political situation, China's economic situation has become the focus of people's attention, both at home and abroad. Some foreign news media have said that China is experiencing "a major economic decline," and some people in China have shown a lack of confidence in our efforts to improve the economic environment and rectify the economic order. How should we assess and understand our economic situation?

Yuan Mu: How to assess our economic improvement and rectification and in-depth reform constitutes the basis of our observation and analysis of our current economic situation. In his "Report on the Work of the Government" delivered to the Third Session of the Seventh National People's Congress, Premier Li Peng explicitly pointed out: We have made "fairly evident achievements" in improving the economic environment, rectifying the economic order, and deepening the reform in the past year or more. This assessment has been accepted and approved by the people's deputies, and it accords with facts observed by everyone.

Maintaining national stability is currently the paramount task overriding everything else. After more than a year of hard work, our country's overheated economy has noticeably cooled off, and this has laid the foundation for economic and social stability. Maintaining a balanced ratio in our national economy is a precondition for economic stability and development. Stability and development are out of the question when the economy is overheated. Economic overheating is caused by excessive increase in investment and consumption. Last year, our society's investment in fixed assets was actually reduced by 90 billion yuan, and overall wage expenditures and institutional consumption were cut by a fairly big margin. Since the beginning of this year, investment in fixed assets and consumption funds have also been effectively controlled. The rise in retail sales prices, in particular, has been declining in successive months. The price rise in the last seven months has been kept to the single-digit level. The inflationary momentum has actually been stopped. At the same time, progress has been made in structural readjustment, and industry and agriculture are turning around their excessively cooled condition. A large number of high-consumption, low-standard, and overlapping processing industries have

been consolidated, and the basic industries and infrastructures, such as energy, raw and semi-finished materials in short supply, and transportation and telecommunications, have been strengthened. Undoubtedly, we have achieved success in the current stage of economic improvement and rectification.

What must be stressed is that last year's endeavor to improve the economic environment, rectify the economic order, and deepen the reform was carried out against an extraordinary historical background. The significance of this perhaps far surpasses the achievements themselves. This fully demonstrates the unswerving determination of the Chinese people to fight in unity and the strong vitality of the socialist system. It also shows that the people throughout the country support and approve of our efforts to improve the economic environment, rectify the economic order, and deepen the reform. Therefore, we should fully affirm the achievements of the past year. If we underestimate this or lack adequate understanding of it, we may hesitate or waver with regard to the center's principles and policies, and this will not be conducive to our efforts to further improve our economic conditions. It is not correct to have doubts or to reject the fruits of economic improvement and rectification simply because of the emergence of new contradictions and new problems. Views like this should be dismissed.

Reporter: If evident achievements have been made in improving the economic environment and rectifying the economic order, as we have pointed out, how do we explain the new contradictions and problems that have emerged in our economic life and that are seriously obstructing economic development?

Yuan Mu: After more than a year of economic restructuring, we have ameliorated the profound problems caused by economic overheating that began in the second half of 1984. However, these problems have not been resolved completely. We might even say that they are far from being resolved completely. This is the background under which new contradictions and problems occurred. For example, the weak market was rooted primarily in the excessive demand and sales of the previous years, which pushed the irrationally structured processing industries to develop blindly at a high speed. After the demand was controlled and the market became stable, a number of enterprises were bound to encounter difficulties in sales. In addition, some manufacturers of products that encourage excessive consumer spending also encountered difficulties in sales. Further reduction in capital construction led to stagnation in sales of certain building materials and machinery and electrical products. Of course, the failure on the part of macroeconomic management to foresee this and provide adequate guidance has aggravated the problem. Therefore, we must have an overall understanding of the new contradictions and difficulties emerging in our economic life. We must not see only one aspect to the neglect of the other. The two aspects are closely related and interact with each other.

In short, market weakness and low production growth are phenomena that tend to appear as the economy is gradually passing from overheating to a normal condition in the course of economic improvement and rectification. They are developmental problems and temporary difficulties. We must not give too much weight to them, nor should we take them lightly. Giving too much weight to them would weaken our determination to carry out the policy of improving the economic environment, rectifying the economic order, and deepening the reform. Taking them lightly and refusing to take positive measures to guide them would also interfere, from another aspect, in the smooth progress of the program to improve the economic environment and rectify the economic order.

Reporter: There are two different viewpoints in economic circles today with regard to the new contradictions and problems: One holds that excessive efforts have been made in improving the economic environment and rectifying the economic order and that the austerity policy should be relaxed at all costs. The other holds that the phenomena are the result of economic improvement and rectification, that there is nothing to be feared, and that we must not repeat past mistakes. What is your view on this?

Yuan Mu: The lessons of 1985 and 1988, which saw some austerity measures without overall reduction from the beginning to the end, are profound. It is only natural that people should worry about whether we will take the same disastrous road. If we do not continue to press ahead with the economic improvement and rectification program, which has been going on for some time, because of the new problems, more serious disastrous economic consequences will occur. This is because our current situation is a far cry from the one prevailing a few years ago. The major difference is that while a certain degree of inflation did appear in the period between 1985 and 1987, the price increase remained at the one-digit level, as compared with the continuous double-digit increase from 1988 to 1989. Currently, we are reducing the money supply primarily by tightening credit; the proportion of money withdrawn from circulation by means of commodity sales was fairly small. Under these circumstances, if we abandon economic improvement and rectification and turn to improper and excessively rapid stimulation and heating up of the economy, the force of reaction would be greater, and the harm to the healthy development of the national economy would be more serious. Therefore, we must fully realize that the current economic improvement and rectification program is imperative. We must press ahead with it unswervingly and on no account should we allow it to suffer another setback. Of course, we must not blindly stress austerity; we must correctly control and adjust the degree of austerity on a timely basis. It is safe to say that how to understand the new contradictions and problems today and make appropriate choices will decide whether or not China's economy can develop in a sustained, stable, coordinated, and sound way. This is a major issue of principle.

Reporter: Our country's economy is currently in a state of low growth. Some people say our economy is in a state of "vacillating in the valley." If that is the case, what is the prospect of our economy emerging from the "valley" and achieving the goal of appropriate growth?

Yuan Mu: Maintaining appropriate growth and avoiding drastic rise and fall in the period of economic improvement and rectification are also our goals. We oppose blind pursuit of high growth rates at all costs. At the same time, we do not support maintaining an excessively low growth rate for long periods. The current low economic growth will lead to a decline in government revenue if it continues for too long. If this happens, not only would we be unable to improve the people's livelihood; we would have no available resources for long-term construction, either. Such a result was not our original intention when we undertook the economic improvement and rectification program, nor is it the inevitable consequence of the economic improvement and rectification program. Recently, the State Council adopted a number of measures to ameliorate the new contradictions and problems and stimulate the appropriate growth of the economy. Since last March, industrial production has shown growth momentum. Industry actually grew 2 percent in April. The growth is expected to be a little higher in the second half of this year. We now possess certain material conditions. Our telecommunications, transportation, electrical power supply, and supply of basic raw and semi-finished materials, for example, are much better than before. If we can fully use these conditions, we will be able to achieve appropriate economic growth.

What is more important is that the present policy of economic improvement and rectification is the only way whereby China can extricate itself from its economic predicament and achieve sustained, stable, and coordinated economic growth. Practice has provided us with a valuable lesson, namely, we cannot waver in our determination to improve the economic environment and rectify the economic order. Nor can we be overly anxious for quick results; specific measures must be adopted in light of the times and the situation, and must be adjusted on a timely basis to produce the appropriate effect. This is also the principle to be followed in improving the economic environment, rectifying the economic order, and deepening the reform in the future. If we can follow this principle, flexibly deepen the reform, readjust the economic structure, and raise our economic results, we will be able to guide our economy to healthy development and achieve our goal. We can say that the ship of economic improvement and rectification and in-depth reform is taking us to the land of success, which is now in our sights. Although there are frequent undercurrents of difficulties in our voyage, "our light boat has passed through countless mountains while the cry of monkeys is heard from the shores." Of course, if we leave room for improvement, we can change the words of this ancient poem to read "our light boat is passing through countless mountains" instead of "our light boat has passed

through countless mountains." This may be more in accord with reality. In short, we can predict a bright prospect for our national economy.

## FINANCE, BANKING

### Defects of Current Taxation System Discussed

90CE0236A Beijing ZHONGGUO JINGJI TIZHE  
GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 4, 23 Apr 90 pp 23-26

[Article by Zhou Shaohua (0719 1421 5478): "On the Seven Problems Plaguing the Tax System"; passages in boldface as published.]

[Text] Taxation is one of the three major tools (taxation, banking, and planning) for managing the socialist planned commodity economy. In the decade since reform began, restructuring of the tax system has played an important role in streamlining the government and devolving authorities to the lower levels and in mobilizing the enthusiasm of the localities, enterprises, and individual workers as well as in promoting economic prosperity and growth.

Looking at the present situation, China's tax system is plagued by the following seven problems:

**The personal income tax system.** This is a major source of state revenue for the well-developed countries. In China, however, an absolute majority of the people do not pay income tax. If China's 20 million workers give up one yuan per person per month, it will generate more than 2 billion yuan. This is a huge revenue source. Under China's current personal income tax system, the taxable income base is high, the starting rate is high, the margin is steep, and there are only a few brackets. Our banks, government organs, enterprises, and institutions basically do not have a tax-withholding system, nor does the tax bureau have a tax refund system. In the well-developed countries, personal income tax is managed by fairly scientific methods. We should learn from their experiences and formulate a set of realistic and practical reform program according to China's own characteristics. We should strive to set up a personal income tax system within the next 10 years or longer and establish in each individual citizen the concept of tax responsibility and obligation. The personal income tax system can open up a vast new territory for turning the principle of distribution according to work into reality. Our present method attempts to plug the loopholes from where the money drains, but the more we plug, the fancier the loopholes get. In the future, we should go ahead and apply the principle of more pay for more work and to each according to his work. We can pay higher wages, but the workers must pay income tax and social security, and as the people earn more, they should contribute more to the state. As China implements the social security number system, and as computers become more popular, it is possible, especially in the large and medium-sized

cities where there is a concentration of technical facilities and personnel, to turn this concept into reality.

**The enterprise income tax system.** The enterprise contract system, cost accounting system, wage system, depreciation rate, unemployment benefit, medical insurance, retirement benefit and so on, are riddled with problems.

Today's enterprise cost accounting system needs to be improved. The way the system is being implemented is confusing, and there is no stringent management and restraint. First, certain expenses which should be debited to cost have not been so debited. Second, everybody is asking enterprises for money, forcing too many enterprises to allocate cost irrationally.

Enterprises' wage system also needs to be improved. For example, statistics compiled in a certain city revealed that six major categories and 36 different kinds of enterprise workers' allocation channels have been set up according to the 28 documented regulations issued by departments of all levels empowered to issue such regulations. Of those, 26 are wage-type income and 10 are nonwage income; 12 of them can be debited to cost and 19 are exempt from bonus tax. These do not include second jobs and directly paid price subsidies, money awards, in-kind payments, bonuses, and stock dividends not recorded in the books. In addition, according to a survey taken in that city of 99 enterprises in the people's ownership system, wages have been increasing faster than enterprise profit by 17.1 percent, surpassing the overall labor productivity rate by 17.6 percent [as published].

**The enterprise depreciation system:** Increasing the rate of depreciation can speed up enterprise technological transformation and improvement and help control the rapid increase in consumption. It can also play an important part in ending the situation where enterprises are showing profit and government showing surplus but are in fact losing money and running a deficit. However, increasing the rate of depreciation will inevitably reduce profit, which neither the state, enterprises, nor the workers can accept. For this reason, China allows enterprises a fairly low depreciation rate, and while refusing to raise the depreciation rate, we allow debts to be paid with pre-tax funds, so as to let the state pay for technological transformation. This, in fact, is the fundamental obstacle to efforts to switch to after-tax debt payment. If this problem is not solved, talks of "separating taxes from profit, paying debts with after-tax funds, and entering into contract after taxes are paid" will be but empty words.

The enterprise income tax system has basically been replaced by the contract system. Under the contract system, enterprises' income tax rate has in fact been lowered from 55 percent to less than 30 percent, and below 20 percent in some provinces. Before we can change the contract system to achieve "separation of taxes from profits, after-tax debt payment, and after-tax

contracting," we must resolve three issues: One, we must lower the enterprise income tax rate; two, increase the depreciation rate, so that enterprises can afford to pay debts with after-tax funds; three, implement a bi-level budget system—income tax will be used to fund the government's administrative undertakings; profit delivered by enterprises that enter into contract after paying taxes will be used by the state-owned asset management department to pay off the state-owned assets' debts, pay for discounting, and fund appropriations in accordance with the state's industry policy. Only in this way can we establish a lawful management system.

The problem with the circulation tax (product tax, value-added tax, and business tax) can be seen in three areas:

Under the reversed regulation of the present financial contract responsibility system, a high tax rate is imposed on all state-restricted developments and low tax rate is imposed on developments encouraged by the state. The result of this practice has turned out to be just the opposite of what we had hoped. To ensure more fiscal revenues, governments at all levels vigorously expand industries which must pay high taxes. Small breweries and tobacco factories are everywhere. Scarce goods which the state is in urgent need of are ignored. As a result, both the economic structure and the industrial structure are unbalanced. If this issue is not resolved, it will be impossible to readjust the industrial structure.

There are too many different rates and too much of a difference between the tax rates of different products. Efforts to regulate the taxes are incoherent, and the tax collection procedure is too complicated.

The circulation tax coincides with and complements the existing price system. The tax rate is higher if the general price level is higher than the average rate of profit, and vice versa, but sometimes the opposite may be true. This system may make taxation more fair, but on the other hand, it tends to solidify a bad price system and diminish enterprises' ability to tolerate any price reform. Perhaps, if the state's financial ability so permits, we can consider changing the circulation tax system in a planned and systematic way to facilitate the restructuring of the price system.

**The issue of separate state and local tax systems.** The separate tax system and the smooth relationship between the central authorities and the localities are what guarantee the country's integrity, the nation's unity; they are the guarantee of economic development, social stability, and long-term peace and order.

A separate tax system in essence means letting the state tax bureau levy a first round taxes on the citizens, enterprises, and the circulation links; these are the central taxes. Thereafter, local governments at all levels may levy taxes in the second and third rounds. The central tax rates need not be high; some can be fairly low, leaving room for the local governments and allowing them some decision-making authority. The crux of the matter is that

we should bring all income out into the open, strengthen the state's legal management of financial and economic affairs, expand the central government's revenue sources, and establish among the people and enterprises a sense of national belonging.

The present problem is that many local comrades are wary of the separate tax system. I suggest that we begin to study and draw up a concrete separate tax program and clarify several principles: One, we should basically recognize the central and the local governments' vested interests (we are but accepting the reality) and make only minor rather than major adjustments. In other words, we will accept the vested interests in return for a new system. The merit of this system is that it can greatly expand the central and the local governments' source of tax revenue, so that the central government's fiscal income is not restricted by the local governments, and the local governments will have their own legally designated source of revenue. Two, we should clarify that separate taxation does not mean the old routine of state monopoly of revenues and expenditures; instead, it means delineating central and local responsibilities, jurisdictions, and interests. This is the basic guarantee of the local governments' decision-making rights. Three, we should separate the taxes after we have defined the central and local governments' respective duties and limits of authority. Four, we should implement the system step by step.

The separate tax program should be considered comprehensively in conjunction with, among other things, the personal and enterprise income tax systems, the circulation tax system, the department and local financial contract systems, the bi-level budget system, and the state-owned asset management system. It should be discussed in detail with the local governments, considered carefully, and turned over to the National People's Congress for deliberation and approval before implemented in steps.

**We should make a thorough study and resolve the issue of the state-owned asset management system and the bi-level fiscal budget.**

Bi-level budgeting in effect separates the state and local governments' taxation rights and property rights. Every enterprise and every individual engaging in production and conducting business within Chinese territory should pay taxes directly to the state as well as to the local governments. Every investment company, enterprise group, and construction project financed with funds directly appropriated by the central government or a department of the central government should pay taxes according to the law. Furthermore, the state-owned asset management bureau is entitled to receiving dividends according to the size of its shareholding and has the right to contract out, auction off, or lease those companies and enterprises to recoup profit or investment.

Drawing a clear distinction between earnings generated by state-owned and publicly owned property rights and

government tax revenues is the theoretical basis for separating taxes and profits and for after-tax contracting.

We should delineate the property rights of the central and local governments at all levels and further smooth out the relationship between the central authorities and the localities. Under the financial contract system and the yet-to-be-implemented separate tax system, we cannot mix state-owned and publicly-owned property rights, management rights (including contract, merge, and auction rights,) and the right to receive income into "one big pot." We must uphold the principle of whom-ever makes the investment is entitled to the benefits and should be in charge.

**We need to appoint special personnel to audit the government's administrative and management departments, the way the social services departments charge their fees, and how the revenues are being spent, and we should set up relevant systems to facilitate this effort.** This is a major issue that involves the matter of an honest and impartial government. We should promulgate the appropriate laws and regulations as soon as possible.

**The issue of levying taxes according to the law.** Of course we need to promulgate laws if we are to levy taxes according to the law, but more important is the legal regulation mechanism. The problems with the existing tax law are: (a) Too often there is taxation but no law, which explains the localities' widespread practice of reckless allocation. (b) The existing tax law gives the tax bureau and tax collectors too much power and freedom to assess taxes, which gives taxation a sense of willfulness. (c) We lack a strong and effective mechanism to restrain the tax bureau. (d) There is no arbitration and mediation organ to settle tax disputes. To solve these problems, we must promptly put tax collection onto a legal track. We can consider completing the legislative process as soon as possible to legalize the existing tax categories and give them a sense of authority. Tax reform in the future should also proceed in the form of a legislative process. We should strengthen the auditing system and set up a tax court to take charge of settling tax disputes.

To sum up the above, tax reform is a large, systematic project. It involves the state and individual, the government and enterprises, enterprises and their workers, and the central government and local governments at all levels. It involves government organs, the wage system, the financial system, the planning and pricing system, and so on. If we want the restructuring of the tax system to be successful, we must let the authoritative leaders and organs take charge. When other countries restructure their tax systems, they usually set up a high-level work group made up of experts from different fields and people with practical experience to design and lead the project. Therefore, I suggest that leading comrades of the State Council should be in charge of setting up a tax reform office which consists primarily of members of the financial ministry, the state commission for restructuring the economic system, and the state administration

of taxation and other units and spend a year or two to study the tax system thoroughly and systematically to determine the general reform direction, principle, program, and the specific steps. We should spend 10 years or longer to put China's tax system in order.

### Escaping the 'Bermuda Triangle' of Debts in Sichuan Province

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30 May 90 p 2

[Article by Pan Ling (3382 0407), Staff Correspondent]

[Text] In the history of world navigation a hazardous zone called the "Bermuda Triangle" is mentioned. At present, there seems to exist another "Bermuda Triangle" involving many enterprises that have been swept into a vortex of "triangle debts." What kind of "Bermuda Triangle" is this?

Up until the end of March 1990, according to estimates on goods past due for over a month, after allowing for sums remaining from payments not yet received and payments not yet made, and apart from those figures for payments received and made in advance, sell-on-credit contracts, or open business drafts, which take care of incoming receipts and outgoing payments within a set time frame, the amount of debt that enterprises in Sichuan Province owe each other on their goods total 14.666 billion yuan. Enterprises swept into this vortex of "triangle debts" make up more than 90 percent of all enterprises.

By paying off on earlier "triangle debts" but owing on later ones, the amounts owed add up rapidly so that clearing the debts become increasingly difficult. Since April of this year, even though 1.6 billion yuan of debts was paid off in the whole of Sichuan Province, by early May, debts owed in the whole province were still over 14.363 billion yuan. To help large enterprises throw off the worry of "triangle debts," banks last year selected key enterprises as entry targets and funneled 5 billion yuan to them. However, many less efficient and non-priority subsidiaries of some key enterprises became recipients of funds coming through the funnel. The result was that these less efficient enterprises became a drag on the key enterprises in a dependent relationship, with the debts they owed.

While the drop in enterprise "credit" may be one reason that this mounting debt of enterprises owing each other becomes increasingly severe with the passage of time, other difficulties also contribute to the problem.

Statistics compiled by the Sichuan Provincial Industrial and Commercial Bank on their 2,483 state-operated industrial enterprise accounts at the end of 1988 show 6.16 billion yuan recorded for goods finished, 4.47 billion yuan for goods shipped, and 3.69 billion yuan for receipts due and pre-payments. Altogether, these three items diverted 40 percent of the total circulating funds into inventory overstocking and mutually owed debt.

The steady rise in costs for raw materials and the cumbersome complexity of taxes and miscellaneous fees ate up a big chunk of assets, adding fuel to the fire. Beginning this year, the cost of industrial-use electricity in Sichuan rose 0.04 yuan for each kilowatt hour. Toward the end of last year, the cost of industrial grade salt rose from 108 yuan per ton to 230 yuan, causing the capital cost of enterprise products to rise, and cutting down competition at the same time. Local "regional protectionism" also restricted users buying goods elsewhere, creating a "noose to hang oneself."

Moreover, excessive taxes and fees have generally been levied, as noted in reaction from contacting enterprises. A survey of large- and medium-sized city-owned enterprises engaged in the production of machinery, industrial chemicals, food, and construction items by the Luzhou Bank showed that, after 1988, on the basis of more than ten taxes and fees levied, including a commodity tax, income tax, regulatory tax, city maintenance fees, education tax, and new taxes including licenses for vehicles and boats, user fees for energy and transportation, and a construction trust fund, additional fees levied included land use tax, stamp tax, a food development trust fund averaging 40 yuan per person, a planning and regulatory trust fund etc., to which are added various bonds, miscellaneous party and charitable contributions etc., making an unbearable burden for enterprises in general. The Yibin Regional Consumer Cooperative also revealed information that their only marketable bamboo and wood farm implements were crates and boxes, and their warehouse was "triple empty." The reason for this is that an enterprise engaged in production of such items encounter various taxes and fees that make up 52 percent of the enterprise capital. No one wants to engage in such a money-losing business.

Then, can banks in their "God of Wealth" roles save these enterprises from disaster and help them to safety and survive?

It is difficult! Banks are still gasping just after weathering a serious inflationary environment. It is said that the economy has been overheating in recent years, and priority local items and problems from blind and senseless construction building have caused banks facing numerous problems to be exposed. At the Sichuan Industrial and Commercial Bank, a client which is a state-operated enterprise required an overall investment of 5.5 billion yuan, and needed a circulating capital of 2.65 billion yuan for 586 capital construction and retooling items completed and partially completed in 1989 and 1990. Even if existing enterprises were to just maintain simple production activity without any other consideration, and the whole industrial and commercial banking system were thrown in to support it, half of the deficiency would still remain.

A priority item of national construction is the Tongjiezi Hydroelectric Station, where a shortage of funds for engineering construction has been placed between 10 to 20 million yuan annually. Even so, the project must

continue. As the result, the engineering division owes the production division for materials needed to continue with the work. When capital for construction items is not in place, a series of debts owed will be dragged out. With serious debt tangled in such a "net," where can the bank begin the untangling? How much money can be thrown into the process?

Various debt-chasing teams of enterprises large and small have formed a nationwide "link." There is hardly an enterprise that does not try its hardest to escape the "Bermuda triangle" of debts. The plant manager of a large enterprise said, "Winter is heavy snow and miles of frozen ice, but spring is nature awakened and a velvet of green covers the earth." That is using an analogy to say that only the right climate can melt the "freeze" of a chain of debt. Such a climate should regulate the amount of tension in such a way that it is possible to improve structural organization and to increase economic benefits. Following are measures that should be taken:

Appropriate easing of the money supply. Because correction requires expansion, the prescription of a strong dose of "tightening" was used a couple of times last year. By applying this treatment continuously, "superficial correction" can become "root correction" to solve deep conflicts in the national economy. This opportunity to apply an appropriate amount of tightening should not be lost. With respect to pressure from the large amount of inventory piled up at present, we cannot erroneously "diagnose" this overstock as being generally "out of date." Analysis shows that among the overstock of commodities worth 6.5 billion yuan produced by state-operated industrial enterprises in Sichuan, the percentage of second quality high-priced goods that is not acceptable is only 30 percent, but the inherent negative effect of tightening is the chief cause of inventory overstocking. Excessive overstocking of inventory explains the fact that the need for investment is inadequate. Some people estimate that the actual amount of currency in circulation at present is only 70 percent of what it should be. Only a suitable easing of the money supply can increase the state's creditability to pay bills in exchange for restoring wholeness to the dislocation of currency and commodities in the marketing of goods. This is a good prescription for eliminating the negative effect of tightening, in order to restore market health. It also meets the pattern of suitably small and gradual relaxation after most large tightenings.

Regulating the structure. The purpose of tightening is to create a good environment to step up regulation of the structure, and through such regulation to implement overall balance and to promote steady and stable development of the national economy. The "dehydrating effect" of "double-tightening" gradually separates the good and the bad in the enterprise and its products, and provides an opportunity to support the good features and limit the bad, for there is an urgent need to change illogical conditions long prevalent in China's enterprise and commodities structure. We should establish a trust fund for transferring ownership rights, a system of social

insurance and debt management, to facilitate the combination of mergers, account clear-offs, and bankruptcy situations together. By doing so, we can merge, transfer, or close down enterprises with negative assets-to-debt ratios, to assure that regulation of organization structures yield real results. It is only in this manner that the phenomenon of paying off on early debts, but owing on later ones in a "triangular debts" situation, can be dealt with basically.

Stimulate enterprises to increase economic benefits. In a soft market, enterprises should bring into play their inherent dynamics to benefit themselves and the market. In accordance with related policies, development funds for developing new products, and specific funds for technical improvements should be properly utilized. Enterprises should put great effort into developing specialized cooperatives, using such hot items as bicycle handlebars etc., to stimulate formation of special enterprise groups. This will break down regional and departmental barriers, fixed assets will be invested, and enterprises will channel their own circulating funds onto a track of orderly management, and investment items prepared to having 30 percent of the circulating funds raised by themselves will be the rule. Before paying construction funds for key energy and transportation projects, we must be sure to calculate the supplemental amount of circulating capital which is based on 10 percent of the profits after taxes. At the same time, we must create favorable external conditions for enterprise development, using such leverage as credit, favorable interest rates etc., to set production in motion and stimulate the market. A tax-free or lower tax policy for the sale of new products during the marketing trial period, a temporary suspension of business taxes for income from the fruits of technological research during transfer into the application stage, and a policy for banks to delay posting or suspend interest penalties could be implemented. The economic benefits to an enterprise and its reputation are directly proportional to each other. After establishing a climate to clear "triangle debts," an enterprise must rebuild its reputation. Business credibility must incorporate a standardized form of management with a billing system to actively exert its necessary effect in a commodity economy. Enterprises that do not meet industrial policy requirements, that are poorly managed, and operate at a loss for successive years are not accepted as being in the clear.

## INDUSTRY

### Heilongjiang Conference on Major Production Elements

SK2807121990 Harbin Heilongjiang Provincial Service  
in Mandarin 2100 GMT 23 Jul 90

[Text] The provincial conference on facilitating the circulation and restructuring of the major elements for production, which lasted for four days, concluded on the afternoon of 23 July. Provincial Vice Governor Tian Fengshan spoke to summarize the conference. He set the

following demands on how to successfully implement the guidelines of this conference, and further improve the circulation, organization and restructuring of the major elements for production.

First, we should further emancipate our minds, and have the courage to conduct reform. At present, there are some leading cadres as well as staff members and workers who lack a clear understanding of the important significance of the circulation, organization and restructuring of the major elements for production, and the obstacles in their understanding and ideas have yet to be eliminated. Our endeavor to facilitate the circulation, organization and restructuring of the major elements for production will unavoidably get to the contradictions accumulated for many years in our economic restructuring. The circulation, organization and restructuring of the major elements for production require us to readjust the pattern of interest that has taken shape in the process of reform. To successfully implement the guidelines of this conference, we should further emancipate our minds, and have the courage to conduct reform. Many typical experiences have been introduced at this conference. All localities should conscientiously learn from them, and closely coordinate the policies of the party and the state with the actual conditions of our province, and carry out our work in a creative manner.

Second, we should work out overall plans, and implement them to the letter. In giving guidance to work, we should include the circulation, organization and restructuring of the major elements for production in the Eighth Five-Year Plan to make it one with the development of the economic development as a whole. With regard to this work, we should have an active attitude, but refrain from being overanxious for quick results. We should never raise a hue and cry over it, nor engage in formalism. We must carry out down-to-earth and meticulous work, and stress actual results. Governments at various levels should work out overall plans, and assign a leading comrade to be responsible so that this work can be performed in a planned, organized and well-guided manner. At present, we should conduct in-depth investigations and study to further clarify the assets in stock, and the amount of the major elements for production that may be put into circulation in order to have a good grasp of the current situation in the economic structure. In line with the state's industrial policy and the specific arrangements of the province, all localities and departments should work out specific plans of their own trades and departments and specific measures for implementing the plans. Governments at various levels should formulate detailed regulations in line with local conditions. With regard to the enterprises with greater difficulties, we should help them resolve their practical difficulties while attending to the circulation, organization and restructuring of the major elements for production.

Third, we should properly handle the relationship between adjustment and stability. At present, stability should still be put in first place. Only when the economy



is promoted can we have a solid foundation for stability. We should neither shackle ourselves in order to maintain stability, daring and intending to do nothing, nor should we carry out our work hastily without considering our conditions and social stability. Our leading comrades should further develop the economy and stabilize the overall situation by deepening reform, and facilitating the circulation, organization and restructuring of the major elements for production.

Fourth, we should have a sense of respect for the overall situation, and uphold the unification of government decrees. All localities and departments should consider matters from the viewpoint of the province, and never replace government decrees with department policies. We should maintain the stability and continuity of policies, and the political stability of the province.

## SMALL-SCALE ENTERPRISES

### Report on Liaoning's Individual, Private Economies

90CE0303A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 31 May 90 p 1

[Article by Xia Yang (1115 7122), Sun Shitang (1327 0013 1016), and Ru Shaoli (5423 1421 4539): "How To Deal With the Individual and Private Economies—A Discussion of the Current Condition of the Individual and Private Economies in Liaoning Province"]

[Text] Various public criticisms of the individual and private economies have appeared since 1989. Some people think that expanding the individual and private economies has fostered a new exploiting class and promoted privatization. Others think that the excessive growth of the individual and private economies in recent years has shocked and wrecked the state-owned economy. Still others think that all heads of self-employed households and owners of private enterprises thrive by dishonest practices, and that their cheating, swindling, excessive eating and drinking, visits to prostitutes, and gambling have corrupted the social atmosphere. Based on these perceptions of the individual and private economies, the various measures which have been proposed to restrict them in certain regions and sectors during the course of improving the economic environment and rectifying the economic order, have caused many worries for certain heads of self-employed industrial and commercial households and owners of private enterprises, made many of them unwilling to further increase their input, and even made some suggest closing down or giving up.

People in economic circles in Liaoning Province think that a decline in the individual and private economies would have an adverse effect on the development of the national economy. As our most important current issue is still how to resolve this matter of perception, the following three distinctions must be made to change the perception of the individual and private economies:

1. The party's policies toward the individual and private economies must be distinguished from bourgeois liberalization. The policy of allowing the individual and private economies to exist and grow within limits as a necessary supplement to the state-owned economy during the stage of socialism, was not an arbitrary choice. The inability of our backward productive forces, undeveloped commodity economy, and unitary system of public ownership to cover all aspects of our socio-economic life, means that the PRC must allow diversified economic components to coexist with our system of mostly public ownership.

The individual and private economies have a very distinct impact on the whole national economy. Over 50 percent of the meat, eggs, poultry, fruit, vegetables, and aquatic products in Liaoning Province are produced by individual and private enterprises. A number of individual and private enterprises have also developed externally-oriented economies. Export earnings from the 118 kinds of products manufactured by 26 private enterprises in Liaoning Province and sold overseas, amounted to 26.81 million yuan in 1988. The 755-million-yuan in taxes that was paid to the state by the individual and private economies throughout Liaoning in 1989, was acquired by the state with absolutely no investment. It must be specially noted that it would be almost impossible for the state to find jobs for all of the over 743,000 workers who are employed by individual and private enterprises. This shows that expanding the individual and private economies is a key means of opening up employment outlets, ensuring social stability, and reducing the state's financial burden. Restricting their development could only be done at the expense of socially productive forces;

2. The majority of law-abiding self-employed workers and owners of private enterprises must be distinguished from the few who get too rich by illegal means. A poll taken by the industrial-commercial sector in Liaoning Province, found that self-employed households earned an average of 3,783.6 yuan a year, and the owners of private enterprises earned an average of 30,349.92 yuan a year, when their incomes were at their highest point in 1988, and that 54.9 percent of the heads of self-employed households and owners of private enterprises had average incomes of less than 5,000 yuan, 21.8 percent had average incomes of 5,000 to 10,000 yuan, 18.5 percent had average incomes of 10,000 to 30,000 yuan, and only 4.8 percent had average incomes of more than 30,000 yuan. Dividing them according to income and actual living conditions into the four categories of: 1) those in straitened circumstances; 2) those with enough to eat and wear; 3) those who are well-off; and 4) those who are too rich. This shows that the minority are in categories 1 and 4, while the majority are in categories 2 and 3. Therefore, the heads of self-employed households and owners of private enterprises should not be simply equated with those who are too rich.

A minority of the heads of self-employed households and owners of private enterprises get too rich mostly from



illegally high incomes, which they obtain mainly through tax-evasion and illegal management. These issues have arisen on one hand, because of the low character of these people and, on the other, because of our system and management defects. Our current system that is set up to serve the state-owned economy, has no regular means of distributing various key production necessities to the individual and private economies, which leaves them able to develop only by taking advantage of the disparities in the dual-track pricing system and various other means of support. As our means of control are too weak, our methods are too backward, and our laws and regulations are now too imperfect to meet the needs of the individual and private economies, we must absolutely not forget to take their interests into account.

3. The policy of encouraging development of the individual and private economies within the limits allowed by the state, must be distinguished from encouraging their unchecked development. This will require the following steps to be taken:

—Stopping up of all loopholes: The priority will be to enhance our control of markets and tax collection, in order to resolve the issue of illegally high incomes. We must control the capital of the heads of self-employed households and the owners of private enterprises who have become too rich, collect taxes from them according to the principle of progressive taxation, and guide them to invest their money in expanded reproduction and public welfare facilities;

—Enhancing control of limits: Specific policy limits must be set for things, such as scope of production and management, amounts, and policy measures, for individual and private enterprises. Clear requirements and control methods should be set for the fields of development that should be either encouraged or restricted, in order to ensure the dominant position of the socialist state-owned economy, while giving the individual and private economies room to develop.

—Making it very clear that the individual and private economies are a "necessary supplement" to the state-owned economy: Small catering and repairing trades in the individual and private economies that closely affect the people's lives should be encouraged to develop. Trades that serve the cities, such as the breeding and processing of farm by-products, manufacturing trades that cooperate with large industries and have multipurpose uses, industries that produce distinctive local products and have traditional advantages, and those that develop products which have new technologies and earn foreign exchange from exports, should be allowed to maintain rational industrial structures and product mixes.

## CONSTRUCTION

### Jan-Jun Capital Construction in State Enterprises

HK2607113790 Beijing CEI Database in English  
0933 GMT 26 Jul 90

[Text] Beijing (CEI)—Following are statistics on the investment in capital construction of state-owned enterprises completed between January and June 1990, according to the China State Statistical Bureau.

Items	(Unit: RMB 100 million yuan)	
	Jan.-June/90	Percent over Jan.-June/89
Completed Investment in Capital Construction	466.30	5.4
Productive Construction	337.48	6.7
Non-productive Construction	128.82	2.4
	of which:	
Residential Construction	46.72	9.0
Completed Investment in Technical Updating and Transformation	186.33	-3.4
Productive Construction	157.24	-2.6
Non-productive Construction	29.09	-7.9

### Construction of Beijing World Trade Center Nears Completion

OW2707144490 Beijing XINHUA in English  
1132 GMT 27 Jul 90

[Text] Beijing, July 27 (XINHUA)—Construction of China World Trade Center, the largest and most comprehensive commercial project in China, will be completed at the end of this summer.

Known as a city within a city, the Sino-foreign funded center is located in the east district of the Chinese capital, covering an area of 400,000 square meters with a total investment of 450 million U.S. dollars.

The center includes Shangri-la International's China World Hotel, Traders Hotel, an exhibition center covering 7,738 square meters, a conference hall accommodating 2,000 people, residential apartments, and a shopping plaza.

## FOREIGN TRADE, INVESTMENT

### Economist on Management of Foreign Debts

90CE0241B Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 4, 30 Apr 90 pp 38-42

[Article by Chen Jianguo (7115 1696 0948) of Research Institute of International Economics of the Nankai University: "A Probe of the Use and Management of Foreign Debts"]

[Excerpt] [Passage omitted] As far as the use of foreign debts is concerned, official aid, government loans, and international monetary organization's loans have provided financial supports to China. For instance, the government loans of Denmark, Italy, and West Germany have enabled China to increase cultural, educational, scientific research, and medical expenses. About 30 percent of the World Bank loans have been used to cover expenses for education, the development of backward areas, and public health undertakings. However, due to the imbalance in the supply and demand structure of China formed over the years, China once used a large amount of foreign exchange to import durable consumer goods to satisfy the demand of domestic markets, thus departing from the requirement that developing countries usually use foreign debts for productive investment. Problems of foreign debt optimization in productive investment projects have directly affected the use efficiency of foreign debts and the future repayment ability of China.

Before the implementation of the open policy, China already established a relatively complete industrial system. But because its industrial strategy had major errors, its economic structure became unusually imbalanced, and its industrial output value, especially the output value of its manufacturing industry, was unusually high. The ratio of machinery equipment and the output value of metal products within the manufacturing industry reached the level of advanced countries. If we consider the situation of durable consumer goods, the economic structure is even more imbalanced. At the same time, energy, transportation, water, electricity, and communications formed a bottleneck and became a great restricting factor in the development of the national economy. The existing economic structure has caused several problems concerning the direction of investment of foreign debts. Setting a correct orientation and focus of investment, using foreign capital where the national economy needs it the most, and following the strategic layout of economic construction and the planning and arrangement of national economic development are issues of great importance in effectively using foreign funds in China. Judged from the current situation, China's economic development should focus on the three strategic points of agriculture, energy and transportation, and education and use them to boost the development of the economy as a whole. Developing energy and communications is not only an urgent issue for now but also an issue of far-reaching strategic significance. Due to the shortage of energy, about 30 percent of China's industrial production capacity is not utilized. Since China began to use foreign capital, it has invested a certain percentage of foreign capital, which came mainly from the loans of foreign governments and international monetary organizations, in transportation, energy, communications, and agriculture. For instance, foreign capital was used to build and expand power plants with a total generating capacity of 5.1 million kilowatts; build and expand 10 coal mines with an annual mining capacity of 59 million tons; arrange for

crude oil extracting projects with an annual extracting capacity of 83 million tons; and increase the handling capacity of ports by 60 million tons. The gradual improvement of these infrastructure has played a definite role in easing the bottleneck of economic construction in China. However, the distribution ratio of China's total foreign debts shows that the amount of foreign debts used for energy and transportation departments is not significant. According to the statistics of the departments concerned, at the end of 1986, of \$16.7 million long-term foreign debts (balance, not including direct investment) China borrowed, only 19 percent was used for transportation, communications, and energy and only 3.6 percent was used for agriculture while as much as 60 percent was used for the machine-building and processing industries or transferred for other purposes. Most of the loans transferred to localities were used to import production lines of durable consumer goods and for such industry as hotels. Moreover, the investment structure of foreign-funded enterprises<sup>1</sup> is not very rational. The ratio of nonproductive projects is greater than that of industries whose development is encouraged by the state such as energy, transportation, raw materials, and machine-building. (See table 1)

The above analysis shows that some advanced tendencies and tendencies that do not suit the characteristics of the phase of economic development have occurred in regard to the direction of foreign capital investment in China. While little foreign capital is invested in infrastructure, a large amount of foreign funds are put into the machine-building and processing industries, especially the industry of durable consumer goods, thus increasing the burden of energy and transportation departments whose capacity is already seriously insufficient. The relatively high speed of China's current economic growth does not necessarily indicate that China's stamina and actual strength have increased in economic development. Instead, it has provided conditions for China's industrial structure to lean toward the light industry. Between 1984 and 1985, the increase rate of the output value of the manufacturing, electronics, and light industries was much higher than that of basic industries, and the advanced coefficient of basic industries was negative. (See table 2). In addition, the small ratio of agricultural input does not conform to the strategic demand for agricultural development. In this regard, the fact that Brazil and Mexico ignored agricultural input in the course of industrialization and thereby resulted in the imbalance of national economic structure and the stagnation of economic development should be able to draw our attention.

Another problem in the use of foreign debts in China is that foreign debts have failed to provide effective support to export industries. The foreign capital-supported and over-expanded processing industry and the export industry of China have been seriously misplaced. The expanded processing industry includes machinery and electronics (elevators and automobiles), durable goods (refrigerators and televisions), textiles (polyester yarn

and western-style suit processing), foods (tea leave processing and cigarette), and metallurgy (rolled steel and aluminum products). Judged from China's export situation, the statistics of customs departments show that of commodities exported in the first quarter of 1987, manufactured goods accounted for 17.22 billion yuan, an increase of 45 percent over the corresponding period of the previous year. Among them, the actual increase rates of heavy industrial products (4.03 billion yuan), chemical products (1.04 billion yuan), and light industrial and textile products (12.15 billion yuan) were respectively 110, 11.3, and 35.5 percent. Among primitive products, the increase rates of foods (3.84 billion yuan), beverages (120 million yuan), and raw materials for industrial use (2.24 billion yuan) were respectively 10.5, 58.1, and 6.2 percent. This explains that China's export commodities basically are not processed by those industries which have been expanded. In addition, judged from the trend of development, industries whose exports have increased rapidly are still not those processing industries which have been expanded with the aid of foreign capital. Because of this, China's foreign debts are mainly for "self consumption," which is very similar to the situation occurred earlier in Brazil. If this continues for a long time, the improvement of China's export and debt repayment ability will be obstructed.

The main reasons for the irrational use of foreign debts in China are:

1. China's economy bears the traits of a typical shortage economy. Under the condition of imbalance between total demand and supply, total demand cannot be easily brought under effective control. So the only solution is to increase supply. China's total demand is composed of investment, consumption, capital infusion, and export trade. When investment expands, it will pull the total demand to increase further. China has long been in the course of compulsory growth where the state adopts a high-accumulation policy to increase the speed of economic growth. Such plan-regulated investment is expressed in the form of "investment thirst." The central government, localities, and enterprises all have a strong urge to invest. Due to weak financial and monetary restraints, financial ability has little restriction on actual investment. The implementation of the structural reform and the multiple sources of financing has weakened the restraining power of the original economic mechanism of the state. However, since China's industrial structure is imbalanced, its product mix is also imbalanced, and some products are oversupplied while others are undersupplied. Although most products are in short supply, stockpiling is also quite serious. Due to the expansion of total social demand, enterprises no longer consider technological and product renewal. Instead of investing in the intensive expansion of reproduction process, they invest in the direction of greatest short-term profits and in the production of durable consumer goods to satisfy consumer demands. This tendency exists also in the use of foreign debts.

2. China's pricing system has been seriously distorted. Under the system where market and planned prices coexist, prices lack flexibility and cannot reflect the real cost of foreign debts, thus obstructing the centralization and transfer of resources. With regard to price control, China has formed a low-fare situation in energy and transportation over the years. As a result of state subsidies, the demand and supply have been forced to maintain a balance, thus lowering the interest of foreign capital involvement. Low prices have also led to the excessive use of foreign debts.

3. The infusion of foreign debts is a component of state plan. But because borrowing, using, and repaying units are separated from one another and because foreign fund users often can get various interest-included subsidies from government organs at all levels, not only are the costs of foreign debts distorted but different departments lack horizontal coordination in the use of foreign exchange. As a result, the phenomenon of duplicated imports is relatively serious. The phenomenon that the authority of foreign debts management is not delegated and that all localities vie to start the same project is unusual in developing countries. The foreign fund investment pattern which is guided by regional interests has restricted the development of the economies of scale and made it difficult for the state to carry out overall coordinations.

4. China's basic industries are backward and their technological level is fairly low. Under the condition of low per-capita income, the tendency of advanced consumption occurred. Foreign debt-supported processing industries have satisfied mainly the demand of domestic markets. On the one hand, this can help eliminate the imbalance between total supply and demand. On the other, since China's exchange rate lacks flexibility and the cost of export exchange has increased, processing industries funded mainly with foreign debts now have problems in their exports. They do not have enough motive power for exports now that the state is unable to continue giving them financial subsidies.

In sum, China's problems in the use of foreign debts are fairly prominent. If this pattern continues, it will hurt the efforts to increase China's ability to repay foreign debts and to develop the national economy in a coordinated manner. According to estimates, China will face the peak period of debt repayment in the 1990's. Capital and interest payments on foreign debts will put greater pressures on state finance which is already in red. Besides, the level of imports will remain high. So the debt problem facing China is fairly serious. Currently, in addition to restricting the excessive infusion of foreign debts in macroeconomic policies, we should also strengthen control over the use of foreign debts:

1. The key to the rational use of foreign debts in China lies in the centralized and unified control of foreign debts. We should establish unified, authoritative foreign debt policy-making and functional organs at central and local levels to control and guide the use of foreign debts

and ensure that foreign debts are used to meet the needs of national economic development.

2. It is necessary to strengthen the feasibility study of foreign debt investment projects. A rational investment of foreign debts should be able to give a boost to the rational coordination and development of industrial structure. Currently, we should consider the optimization of industrial structure as the prerequisite and use foreign debts on key departments and projects which are most needed in national economic development. For now and for sometime to come, we must consider three aspects in the investment of foreign debts: 1) foreign debts should be invested in departments and industries which can help accelerate and expand export trade and have high foreign exchange earnings and high added

value; 2) they should be invested in basic industries which have scarce resources and high macroeconomic returns such as energy, transportation, communications, and agriculture so as to improve the infrastructure of national economic development; 3) they should be invested in departments and projects which use advanced technology so as to ensure the optimized utilization of foreign exchange resources and supplementary domestic resources.

3. It is necessary to reform the irrational pricing system to facilitate the optimized use of foreign debts. We should properly raise the prices of energy and transportation and change the situation in which the profit rate of investment is irrational between different industries while at the same time restricting the excessive infusion of foreign capital in processing industries.

**Table 1. The Industrial Structure of Foreign-funded Enterprises Between 1979-1985**

Investment areas/ratio/method	Hotels, apartments	Machinery, electronics	Light industry, textile	Energy industry	Service industry	Raw materials industry	Agriculture, animal husbandry, fishery	Totals
Joint ventures	48	13	24	10	5			100
Cooperative ventures	50	2	5	10	15	10	8	100
Wholly-owned foreign enterprises	20	35	30		2	15		100

Source: "Financial, Trade, and Economic Information" p 5, Issue 5, 1988.

**Table 2. China's Industrial Growth Rate and Advanced Coefficients**

Items	Growth rate between 1984-85	Items	Advanced coefficients between 1982-85
Metallurgy	12.6	Raw coal	-0.36
Electricity	11.3	Crude oil	-0.7
Coal	8.1	Power output	-0.42
Petroleum	9.1	Finished steel products	-0.43
Chemistry	11.8	Water supply	-0.2
Electronics	38.7	Road construction	-0.04
Textile	15.4	Railway construction	-0.05
Paper-making	15		
Textile	9.5		

Note: Advanced coefficient = the growth rate of the output value of basic industries/the growth rate of total social output value. During the period of fast economic growth, the advanced coefficient should be positive.

#### Footnote

1. Funds of foreign-funded enterprises in China come partially from the transfer of foreign debts raised in a

unified manner by the central government and partially from foreign exchange loans raised directly by localities and departments.

#### Intellectual Property Rights Problems Arise in Foreign Trade

90CE0241A Beijing GUOJI MAOYI WENTI (INTERNATIONAL TRADE JOURNAL) No 4, 30 Apr 90 pp 34-37

[Article by Li Xuebing (2621 7185 0393), graduate student of the Law Department of the Fudan University: "On the Responsibility and Insurance for the Intellectual Property Rights of Buyers and Sellers in the 'The Pact of the United Nations on the International Sales of Products'"]

[Excerpt] [Passage omitted] In recent years, as China deepened the open policy and expanded foreign trade, its import and export goods changed gradually from the low grade of raw materials or semi-finished goods to the high grade of finished goods. As a result, the number of disputes over intellectual property rights also increased gradually. The common types of disputes are as follows:

1. Foreign businessmen export goods to us under a trade mark which has already been registered in China, causing the trade mark owner to sue us. Although we did

not know that product was fake and we are not responsible according to law or the rules of the "Pact," it is not worthwhile to spend time and energy in court. And since China has not paid attention to the trade mark law for a long time, some foreign businessmen secretly registered famous Chinese trade marks in other countries. When Chinese tried to export to these countries, foreign businessmen would hold us responsible for infringing upon the rights of trade mark, causing damage not only to our finance but also our reputation.

2. Since we do not care about whether a product is patented in our country and import it blindly, when the third party sues us for infringing upon its rights, foreign businessmen would shift the responsibility to us on the basis that they do not know that the third party had such rights.

These are some disputes we have encountered. As China expands the import and export of technical products, these type of problems will increase continuously. Currently China does not have laws and regulations to guarantee intellectual property rights. Internationally, China can only use the "Pact" to deal with its member nations. Because of this, I think that it is necessary for China to formulate as soon as possible relevant laws and regulations to handle similar disputes. As far as the current situation is concerned, we should adopt the following measures:

1. China should register as soon as possible its famous export products as registered trade marks in major import countries to prevent other people from registering and putting us in a passive position.
2. China should have a general knowledge of the intellectual property rights of imported products, such as whether or not there are problems of duplicate registration of patent, trade mark or service symbol in China or marketing areas. We may consult patent organizations or patent lawyers if necessary.
3. We should demand that foreign businessmen present information concerning the patent and trade mark situation of their products. The general practice is to ask foreign businessmen to provide the certificate of origin or other documents related to the use of patent.
4. According to the regulations of the sixth article in the "Pact," parties involved may revise or reduce the effect of any clause in the "Pact." In our import and export trade with foreign countries, we may stipulate in the contract who is responsible for what clause in regard to intellectual property rights and nullify the 42nd article in the "Pact." This makes it clear and specific. It is also an effective way to reduce and avoid disputes in this area.

These are questions we need to pay attention to in our international sales in order to prevent the requests of the third parties. In practice, if we encounter disputes regarding intellectual property rights, we should clarify responsibility and fight for our rights based on the "Pact" or relevant state laws. At the same time we

should review experiences and learn our lessons to prevent the occurrence of similar situations.

### **Ji Chongwei Interviewed on Coastal Economic Development Strategy**

90CE0286A Hong Kong WEN WEI PO in Chinese 9, 10 May 90

[Interview with Ji Chongwei (1323 1504 1218), Senior Research Fellow at the Economic, Technological, and Social Development Research Center of the State Council, by WEN WEI PO Reporter He Ping (6320 1627) in Ningbo: "New Priorities for the Coastal Economic Development Strategy"]

[Text]

### **[9 May 90 p 4] Economic Sanctions Have Temporary Impact**

The seminar on the export-oriented economy of China's opened coastal areas closed in Ningbo today. Ji Chongwei, a director of the Economic, Technological, and Social Development Research Center of the State Council, was interviewed here.

[WEN WEI PO] Will changes in the international situation and economic rectification at home affect the implementation of China's open policy and the coastal development strategy?

[Ji Chongwei] During the past year, the CPC Central Committee and State Council have declared time and again that China would stick to its open policy and even broaden it. The basic policy on Special Economic Zones [SEZ's] and opened coastal areas will not change. To make SEZ's and coastal opened areas a success and implement the coastal economic development strategy remains an essential element of China's open and reform policies. Some Western nations have put pressure on and imposed economic sanctions against us. While that would create some temporary difficulties for China, it would at worst slow down its modernization to a limited extent but will not affect its economy in any basic way. I believe the current difficulties are surmountable.

The coastal development strategy is the decision of the CPC Central Committee and the State Council. Its practical results have largely been successful. In the coastal areas, foreign trade has made considerable progress, export production bases have been expanded, the export mix has improved, and the investment climate has gotten better. The amount of foreign capital absorbed has increased and the economy has become more export-oriented.

[WEN WEI PO] There is a trend toward economic regionalism in the world today, with the United States and various countries in Western Europe becoming increasingly protectionist. In your opinion, how would that affect our foreign economic relations and trade?

Cooperation With Asia and Pacific Stressed

[Ji Chongwei] In the past decade, we have paid more attention to developing trade and economic relations with developed nations like Japan, the United States, and Western Europe, with remarkable success. In the future, our economic relations with these developed nations should continue to expand and grow. But we should be clear-headed enough to see that the Asian Pacific region, particularly the Western Pacific, where China is located, will be the most economically dynamic area with the fastest growth in the world during the 1990's and well into the next century. Its potential for furthering trade with China is considerable. At the seminar I proposed that we focus our drive to develop foreign economic relations and trade more on the Western Pacific area. In other words, while opening up across the board, we should put more emphasis on strengthening economic ties with China's neighboring nations and regions in the Asian Pacific area.

#### Economic Integration Under One Nation, Two Systems

China's coastal areas are located at the center of western Pacific. We can form a northeast Asian economic sphere with Japan, North Korea, South Korea, the Soviet far east, Siberia, and Mongolia to the north and a southeast Asian economic sphere with Hong Kong, Macao, Taiwan, the Association of Southeast Asian Nations, and countries in Indochina to the south. At present, our economic ties with Hong Kong, Macao, and Taiwan are becoming closer and closer. If we can gradually achieve economic integration under the principle of one nation, two systems, forming a Chinese economic sphere in which the various regions can supplement one another and capitalize on the strengths of integration, then China's status and economic prowess in the Asian Pacific area and the world will receive a tremendous boost. Certainly, emphasizing the Asian Pacific area does not mean overlooking other parts of the world. We should strive to diversify our foreign economic relations as well as our export mix, labor, and economic cooperation. We must pay attention to labor-intensive as well as technology-intensive exports at all levels, high, medium, and low.

#### Bringing Forth One's Strengths

Moreover, the coastal provinces and municipalities need to carry out a proper division of labor depending on their geographical and transportation conditions and industrial characteristics. They should present a unified coordinated front toward the world in order to bring out their respective advantages. In the past, there was much duplication in what the provinces and municipalities imported. They succumbed to a herd instinct, slashing prices as they practiced a vicious kind of competition with one another. A few years ago, large amounts of nonessential upscale consumer goods as well as many pieces of equipment, machinery, and assembly lines, which were unnecessary and which China is totally capable of manufacturing, were imported thoughtlessly. According to customs figures, electronic machinery imports were worth only \$4.2 billion in 1983 but soared

to \$20.6 billion by 1989. Or take cigarette imports. They increased from \$31.36 million in 1981 to \$210 million in 1988, for an average annual growth rate of 31.2 percent, far higher than the rate of import growth during the same period, which was 10.1 percent. In the next several years, therefore, we must do our best to turn the deficit in our foreign trade into a surplus to ensure that we can afford the principal and interest when most of our loans become due and balance our international payments. Moreover, borrowing from commercial banks should be strictly limited. Economic returns on capital should be improved to ensure a reliable ability to repay loans.

[WEN WEI PO] What are the prospects for attracting foreign capital in the near future?

[Ji Chongwei] The mainland, particularly the coastal areas, have done very well in utilizing foreign capital and importing technology in recent years. It is deniable, however, that we tend to believe "the more foreign capital there is, the better." People blindly pursue contracts and neglect the margin of profit. Some localities even hand down rigid targets and put pressure on the lower levels. "Every foreign businessman is good; the more, the merrier." All sorts of undesirable consequences have resulted. A number of people have even been misled by foreign capitalists.

[10 May 90 p 2]

#### Be Selective in Accepting Foreign Capital

[TEXT]

In accepting foreign capital, the coastal areas should adopt a preferential policy selectively based on the nation's industrial policy. Advanced technological enterprises that make import substitutes or exports to earn foreign exchange should be treated preferentially. As for consumption-oriented concerns that mainly cater to the domestic market, such as enterprises in food, beverages, and cosmetics, restaurants, and hotels, should be strictly limited or taxed at higher rates in order to steer foreign capital into those channels that would help optimize China's industrial structure. The State Planning Commission will soon promulgate the "Regulations on Guiding the Direction of the Absorption of Foreign Capital" and "A Guiding List of Industries for the Absorption of Foreign Capital for 1990 to 1992."

#### Over-investment by the Mainland in Hong Kong

It is noteworthy that even as we tried to attract foreign capital a few years back, some sectors, localities, and enterprises were pouring capital into Hong Kong. According to statistics, total investment by Chinese-funded enterprises in Hong Kong amounted to billions of dollars in the last five years, more than the sum of all Hong Kong investments in the mainland. This net outflow of funds violates central policy. China faces a dire shortage of funds for modernization and there are limited sources of foreign capital. We should not and cannot export large amounts of capital. Even when we borrow outside of China, we are in effect adding to the nation's foreign debt, for which the state would still be held

responsible if and when problems arise. The People's Bank has recently decided to clamp down on the opening of banking institutions offshore. The State Council also is currently studying the investment direction and management methods of Chinese-funded enterprises in Hong Kong. In the future, with the exception of a handful of projects which import technology, promote products, or develop resources China is woefully short of and which have received government approval, the outflow of capital must be rigorously curbed.

[WEN WEI PO] A clear sign seems to have emerged from the seminar, namely that instead of the "each area for itself" attitude of the past, coastal opened areas are switching to regional cooperation. What kind of scenario do you envision for those areas in the 1990's?

#### Develop Three Major Economic Regions

[Ji Chongwei] In the past few years more and more domestic and foreign experts and scholars have been dividing China's coastal areas into several major economic regions. Actually, lateral linkages between the various regions along the coast have already been increasing. Perhaps we should consider dividing China's coastal opened areas into three major economic regions: south China economic region, incorporating Guangdong, Guangxi, Hainan, southern Fujian, Hong Kong, Macao, and Taiwan; Bohai economic region, including Shandong Peninsula, Liaodong Peninsula, Beijing, Tianjin, Tang, Shaanxi, and Cang; and east China economic region, uniting parts of Anhui, Jiangxi, Fujian, and Shandong. Externally, these three economic regions may join the southeast Asian economic sphere or northeast Asian economic sphere. This is a crude division of labor based on the closeness of economic linkages between the different nations. Overlapping is not ruled out. Internally, the regions may also determine their own respective hinterland depending on the closeness of economic linkages, again not ruling out overlapping, and proceed from there to draw up their regional development strategy and detailed plans. It is hoped that as they work out the Eighth 5-Year Plan and ponder the 1990's, the provinces and municipalities involved will take into consideration the industrial distribution and division of labor of these several economic regions, forming an overall national plan for the coast and the interior. This will help promote the optimization of the rational distribution of the nation's productive forces and resources and expedite the opening of the interior through the opening of the coast. Right now I think the most urgent issue is to strengthen lateral linkages between the various regions. First, we must stop drawing lines based on administrative boundaries and break the habit of keeping out goods from other localities and confining local products to the locality. To open up to the world, we must first open up internally and establish a national unified market. This is the only way to truly achieve the magnificent goal of modernization and developing a commodity economy systematically.

## POPULATION

### Concern Over 'Quality' of Population

90CE0261A Beijing BAN YUE TAN [SEMI-MONTHLY TALKS] in Chinese No 9, 10 May 90 pp 11-15

[Article by Gao Ping (7559 5493): "How Can We Be Concerned Only About Size?—A Study of and Reflections on the Quality of China's Population"]

[Text] While the alarm over the sharply increasing size of China's population has not yet been eased, we are also facing a series of serious challenges about its quality.

Along with the steadily advancing wave of modernization and the increasingly strong sense of competition in our society, economic rivalry and tests of our national strength are becoming more closely linked to our national quality. "Improving the quality of our population and vigorously developing the Chinese character" have become the accent of the times. A dedicated concern about the quality of China's population has struck deep into the hearts of every Chinese, and an unprecedented sense of crisis and struggle is raging through the veins of the Chinese nation.

### The Appalling Reality

The magnificent civilization of the Chinese nation has towered over the community of world nations for thousands of years, and the Chinese people have become the focus of world attention through 40 years of vigorous socialist development.

However, just as China is racing to achieve the four modernizations, we are being hampered by our own shackles, and the seriously poor quality of our population seems like a submerged reef that is keeping us from surging ahead.

As to our physical quality, average life expectancy in the PRC has increased from 35 years before liberation to 69 years by 1989. These statistics have undoubtedly added a bright page to the 40-year history of our republic, and should make the descendants of the Yellow Emperor feel proud and happy.

However, we must not allow our happiness to let us forget that the physical quality of our people is certainly not the most advanced in the world, and we must have a strong sense of urgency about improving the physical quality of our fellow countrymen.

Relevant statistics show that the PRC has 30 million people with various kinds of congenital defects, 1.07 percent of our children under 14 years of age suffer from low intelligence, we have a national birth-defect rate of 13.07 percent and as high as 20 percent in some provinces, over 850,000 thousand babies a year are born with physiological defects, and over 10 million of the more than 300 million children throughout the PRC have low



intelligence due to factors such as heredity, which includes over 2 million with incurable congenital mental retardation.

There are 51.64 million deformed people throughout the PRC, including about 10.71 million with mental illnesses. One-fifth of the families throughout the PRC have deformed people, over 50 percent of whom have congenital deformities.

About 336,000 of the 30 million children, or more than 1 in 100, in our most populous province of Sichuan suffer from low intelligence. In our most culturally developed city of Beijing Municipality, 9.38 percent of people suffer from mental illness, which means that 86,000 of the permanent population are mentally ill. Gansu Province already has 278,000 mentally retarded people, and over 2,000 more babies a year with low intelligence are born there. The congenital hereditary disease rate has reached 44.1 percent in certain parts of Anhui Province's southern and Dabie mountain areas.

Nutritional conditions in the PRC also give no cause for optimism. The specialists concerned estimate that although the physical quality of our babies who are born healthy is about the same as those abroad, the disparities become increasingly clearer as they grow up.

As to our level of literacy, PRC education has developed rapidly since liberation, and in the last decade of reform in particular, our number of schools, number of students in school, and percentage of school-age children who start school have all doubled and redoubled, and our illiteracy rate has dropped from 80 percent before liberation to about 20 percent.

But due to a variety of factors, our people receive an average of less than five years of schooling, and one-fifth of our population is either illiterate or semiliterate. This includes 10.8 percent of our 12- to 15-year-old teen-agers who are illiterate. The number of college students per 10,000 people in 1987 was only 18.2 in the PRC, but 205 in Japan and 203.5 in Australia.

The ranks of staff members and workers in the PRC can generally be characterized as having "three low levels and one shortage," i.e., low levels of literacy, technological know-how, and management expertise, and a shortage of technicians. Only about 26 million, or only five percent, of the 500 million employed population throughout the PRC are specialized technicians. This percentage is far lower than that in many countries throughout the world.

The crisis is worst in our rural areas. Of the people in rural areas in the PRC, 35.9 percent are illiterate or semiliterate, 37.2 percent have grade school educations, and only four per 10,000 are college students; these percentages are lower than those for Japan in the year 1907.

The gravity of the situation is not limited to this. Five years of grade school education is still not universal throughout the PRC. We have a serious shortage of teachers and a lack

of successors. It is estimated that during the period of the Seventh 5-Year Plan, the PRC will need about 1.1 million more grade school teachers but will be able to train only 900,000 in high schools, we will need 900,000 more junior high school teachers but will be able to train only 500,000 in training schools, and we will need 300,000 more senior high school teachers, which our existing teachers colleges will be unable to handle. There are now over 2 million grade and junior high school teachers throughout the PRC who need further training, which is beyond the capacity of our existing training schools and teachers colleges to provide.

Listing these figures that give such food for thought and arouse such concern, is absolutely not a simple matter of arrangement, because they are backed up by a series of real problems and serious challenges which cannot be dodged.

### The Unstoppable Stream of Low Intelligence

Although the poor quality of our population is an indisputable reality, our heartrending stream of low intelligence certainly remains unstoppable.

Most of the rural areas in the PRC are still deserts as far as eugenics is concerned. Premarital checkups and prenatal health care are still either nonexistent or considered unnecessary. In some areas, women bear one mentally retarded child after another. One mentally retarded couple in the town of Aganzhen in Mang Xian County, Gansu Province had eight babies, none of whom succeeded in escaping their parents' genetic defects.

Marriage among close relatives can often not be prohibited, and many people defy the law by repeatedly breaking restrictions and charging through the red lights, which frequently results in the bitter consequences of too close blood relations from the same family tree. Surveys show that the marriage rate among close relatives in the PRC is now 1.5 percent, and as high as 17 percent in some places. Most peasants marry within a circumference of less than 25 km. Marriage among close relatives over a long period of time has caused the appearance of "simpleton" and "deaf-mute" villages in certain places.

The improvement in our level of literacy is similarly no cause for optimism. The distorted ideals of the quest for money and the business craze of recent years, have caused the school dropout storm to break out with tremendous force. Things such as eagerness for quick success and short-term activities have resulted in a rapid emergence of 2 million new illiterates a year throughout the PRC. The average dropout rate among junior high school students in Fujian Province was eight percent in 1987, which means that almost 30,000 students who had not graduated from junior high school entered the job market there in one year.



### **We Are Certainly Not Just Entertaining Imaginary Fears**

The strange phenomenon of some people facing the fearful with no fears occurs often in life. The harm to the development of our country and nation that is caused by the poor quality of our population is far from occupying the proper place in people's minds.

Statistics from the Ministry of Civil Affairs show that at a cost of 500 yuan a person per year for the bringing up, supervision, and medical treatment of the existing 2 million people in the PRC who have congenital mental illnesses, the PRC spends 10 (sic) billion yuan a year.

The PRC has over 40 million families with deformed people, one-half of whom need care and nursing. This puts extremely heavy economic and psychological pressure on the families.

The restrictions that are put on social development by the low level of literacy of our citizens can be illustrated even better by reports from various areas.

For instance, the average net income of the illiterate and semiliterate work force in Jiangsu's peasant households in 1988 was only 622.2 yuan per capita, or 32.4 percent lower than in those with high school educations, and even 21 percent lower than the average per capita net income for all of Jiangsu Province. The average per capita net income in Jilin's peasant households in 1988 was 838 yuan for those with college educations, 664 yuan for those with senior high school educations, 568 yuan for those with junior high school educations, and only 432 yuan for illiterates and semiliterates.

The following questions certainly merit sober reflection:

Why are waves of feudal superstition and unchecked consumption striking so suddenly and with such increasing intensity in certain areas which have just been lifted out of poverty?

Why is the slogan "promote agriculture with S&T" being shouted to the skies, while as many as 1,000 agricultural S&T achievements throughout the PRC are taking so long with such difficulty to be popularized?

Why are there still so few people who understand the justification for having fewer and better quality children, when our population control policy has been being publicized for so many years?

Although there may be thousands of reasonable answers to these questions, the major factor is the poor quality of our national population. How long should it have to take for every one of us to finally be able to come to a general and thorough awakening about this!

The 21st century is going to put higher and completely new demands on all of humankind, new beginnings are already appearing increasingly clearer on the world's horizon, and no one is going to be able to dodge the coming challenges. The facts show us that the focus of

international competition has shifted from military affairs to economics, the age of trying to win victories by relying on natural resources and cheap labor of poor quality alone is past, and the age of achieving mastery through knowledge and technology has arrived. The modernization of our national quality is closely bound up with the ascendancy of the Chinese nation. Who could imagine that the major productive force of S&T would be able to fully release an enormous amount of energy in a country with such a huge amount of illiteracy? Who could conceive of a nationality with such a poor physical quality being able to fully radiate its proper vigor in an age of such unprecedentedly fierce competition? That "people can accomplish anything once they stand up," is the verdict of the history of humankind!

### **What Is the Remedy to the Problem of Our Poor Quality Population?**

These alarms and concerns have been raised not to make us feel inferior or degraded, but rather to kindle a sense of the gravity of our national crisis, so that we can confront the real challenge and rouse ourselves to keep forging ahead.

In order to bare the heart of our great oriental nation to the peoples of the world and accomplish our grand plans, we are going to have to improve our national quality. Moreover, in order to resolve our dilemma of "inferior childbearing" and "inferior education," we are going to have to give legal guarantees and protection to eugenics. The concerned specialists have pointed out that most of the developed and developing countries in today's world have legislation to prohibit childbearing by the mentally retarded. National eugenics legislation has already begun to be enacted in the PRC.

The first local laws in the history of PRC eugenics to prohibit childbearing by the mentally retarded finally went into effect in Gansu Province in November 1988. They stipulate that "childbearing by the mentally retarded is prohibited" and that "the mentally retarded must be sterilized before being allowed to marry."

This is a beginning that has illuminated our national hopes! It is like an irresistible current that has broken through the dam of thousands of years of ideas about logic and morality, and has aroused strong repercussions both at home and abroad. These laws have established a new milestone for improving the quality of the Chinese nation in China's great northwestern loess plateau, which has always been poor and backward.

Having said that the enactment of these laws has given the green light to better eugenics, an increased investment is an important aspect that should not be neglected either. The dissemination of scientific knowledge, the upgrading of medical facilities, and the improvement of teaching and literacy levels will all require an increased investment.

Our low level of literacy and deficiency of medical knowledge has kept many people, especially peasants in certain impoverished areas, from knowing what hereditary disease is all about. Ignorance and marriage among close relatives have allowed tens of thousands of children to be born who should not have been. This shows the importance of disseminating knowledge about eugenics, having premarital checkups, giving preconception eugenics advice, and taking prenatal tests. However, these things require a specific means of service. The PRC now has a little more than 210 genetics laboratories set up in only 26 provinces, autonomous regions, and municipalities, and in only 80 counties, which are far from being able to meet the needs. Someone has calculated that, at 50,000 yuan each, setting up a higher than B-grade genetics laboratory in each of the PRC's more than 2,300 counties would cost over 100 million yuan. Although this is not a small sum of money, from the perspective of national interests, it is obviously worthwhile compared to the cost of caring for the mentally retarded and deformed, and the sooner it is invested, the better the results will be.

"Education is a basic project of vital and lasting importance." Improvement of literacy level and moral quality both depend on education. Zhongnanhai had educational topics on its agenda almost every month in 1988. The CPC Central Committee has decided that it must change the long-standing backward situation of its investment in education being out of proportion to the growth of the national economy, by drawing up an optimistic blueprint for PRC education in the 21st century. The state has already put into effect various policies to encourage investment in intelligence, fired up its plans, launched pilot projects to reform multipurpose rural education, put into effect plans to eliminate illiteracy, and launched "hope projects," all of which are providing feasible ways to improve the quality of our whole nationality.

Although we are still faced with the pressing task of controlling the size of our population, improving its quality should arouse an even higher degree of vigilance, a better sense of the far-reaching impact of immediate action, and more boundless charitable acts among our whole nationality. As long as our whole nation takes resolute action to boldly confront the challenge of the poor quality of our population, we will be bound to have a more thriving and prosperous future!

## TRANSPORTATION

### Jinan Bureau Meets Press on Railway Security

SK2807022590 Jinan Shandong Provincial Service in Mandarin 2200 GMT 26 Jul 90

[Text] The intermediate court of Jinan Railway Bureau, which is in charge of trials of railway criminals, sponsored a press briefing on 26 July to make public to the journalist circles the serious criminal cases in which railway security and order had been seriously damaged

and the safety of passengers and property endangered. These cases include the looting incidents on passenger trains No. 171 and 172, the robbery incident committed by a gang at the (Huoshan) railway station, and the three robbery incidents committed by outside gangs at the Xuzhou Railway Sub-bureau.

Since the beginning of 1990, courts at the railway bureau and sub-bureau levels have dealt strict blows at a handful of serious criminal elements by heavily punishing them in a timely manner and in line with the law and have ensured the safety and smooth operation of railway transportation. As of June this year, these courts accepted 105 cases of the first instance, involving 278 persons, an increase of 21.6 percent over the same period of 1989.

On 27 July, the intermediate court of Jinan Railway Bureau and the court of Xuzhou Railway Bureau will jointly sponsor an open trial in Xuzhou City to sentence 15 convicts involved in six cases.

### Water Transport Volume Exceeds First-Half Plan

HK2607120190 Beijing CEI Database in English  
0924 GMT 26 Jul 90

[Text] Beijing (CEI)—China's water transportation industry realized a freight volume of 122.39 million tons in the first half of this year, accounting for 50.5 percent of the annual plan.

In the half-year period, the water transportation industry shipped 37.66 million tons of coal and 20.84 million tons of crude oil, accounting for 54.2 and 63.4 percent of the year's quota respectively.

## AGRICULTURE

### Sichuan Grain Storage

40060057E Chengdu SICHUAN RIBAO in Chinese  
10 Jul 90 p 1

[Summary] As of 5 July, Sichuan Province had put 1.508 billion kilograms of grain in storage, exceeding the plan by 7.69 percent; and 858 million kilograms of rapeseeds were put in storage, exceeding the plan by 4.04 percent.

### Shaanxi Rural Savings

40060057F Xian SHAANXI RIBAO in Chinese  
12 Jul 90 p 1

[Summary] By the end of June, rural saving deposits in Shaanxi Province totaled 7.147 billion yuan, an increase of 1.147 billion yuan over the end of 1989.

### Hebei Cotton Area

40060057D Shijiazhuang HEBEI RIBAO in Chinese  
13 Jul 90 p 1

[Summary] The cotton area in Hebei Province is 13,657,000 mu, of this, the spring sown area was

11,432,200 mu, and the summer sown area is 2,225,000 mu, an increase of 465,200 mu over 1989.

### Successful Grain Circulation Requires Planning, Regulation

90CE0284A Beijing JINGJI RIBAO in Chinese  
14 Jun 90 p 1

[Article by Song Wenzhong (1345 2429 0112) of the Department of Policies, Laws, and Regulations, Ministry of Commerce: "It Takes Both Economic Planning and Market Regulation To Succeed in Grain Circulation"]

[Text] After new China was founded, the procurement and marketing of grain has generally gone through three stages. In the early years of the People's Republic, grain was freely bought and sold. In 1953 state monopoly on the purchase and marketing of grain went into effect and lasted for more than 30 years. Since the 3d Plenum of the 11th CPC Central Committee, we have gradually adopted a combination of economic planning and market regulation. It can be said that the road that grain circulation has traveled from total deregulation, to a high degree of centralization, to a mix of regulation and deregulation, showing that applying the principle of combining economic planning with market regulation to grain circulation is more compatible with China's national conditions and grain situation.

China has a vast population but little land. We should work hard to increase grain production, put grain purchasing and marketing on a sound footing, and solve the entire nation's food problem. This is a major issue essential to ensuring a stable livelihood for the people and social stability in the past and for a long time to come. Take a look at the world today. Even economically developed nations, where the grain situation is much better than ours, invariably adopt a variety of planned management and regulation methods in the area of grain circulation. It would be unthinkable to completely give up the planned management of grain needed by the nation's 1.1 billion people and be regulated by the market regulate. Grain production is severely constrained by natural conditions and extensively affected by the production of other crops. Harvests vary greatly from year to year, from region to region, whereas total social demand increases steadily. If we let the market regulate supply and demand completely and allow grain prices to be determined by supply-demand relations, either one of these two scenarios would result: grain would be sold at very low prices, hurting the peasants, or the consumer would be overburdened. Neither scenario does anything to help stabilize society overall. Thus, complete market regulation of grain circulation is unworkable. We cannot and should not go down that road.

On the other hand, 30 years of experience in state monopoly in grain purchasing and marketing tells us that incorporating the bulk of surplus gain or even all of it into the national plan and putting it under centralized management by the state, thus prohibiting free grain

circulation, was something we had to do in times of severe food shortages. It is not a viable solution to the socialist grain problem. Under the state monopoly of surplus grain purchasing and marketing, peasants had no decision-making authority, which militated against grain production. Also, under this system, the grain requirements of all sectors inevitably became the government's responsibility, which did nothing to promote the planned use of grain and the economizing of grain. So, to go down the beaten path of "total monopoly" will not work either.

Judging from the adjustment of the grain purchasing and marketing policy in the past 10 years, adhering to the principle of combining economic planning with market regulation in the area of grain circulation is the only feasible way to accommodate both urban and rural interests, guaranteeing that the state's grain requirements are met even as it energizes grain circulation in a planned way. Under this principle, a portion of the surplus grain comes under planned government regulation and another portion is deregulated for market regulation. Thus monopoly goes hand in hand with market deregulation. Compared to 10 years ago, the availability and utilization of grain in both urban and rural areas today have improved considerably. The consumption of a range of nonstaple food products derived from grain has also gone up significantly. While these achievements are the result of many factors, an important one is the adherence to the principle of combining economic planning with market regulation in grain circulation.

Certainly there is no denying that grain circulation today also has many problems, such as the conflict between contract procurement by the state and purchasing at market prices, the wide gap between monopoly marketing prices and procurement prices, the heavy financial burden on the national coffers, the serious waste of grain in urban areas—all these are major problems that need to be addressed and dealt with carefully and in earnest. Still, the problems in grain circulation nowadays did not occur because we firmly integrated economic planning with market regulation. The principal reason behind them is precisely our failure as we adjusted the grain procurement and marketing policy to make such combination a principle to be adhered in the long haul. Instead, we considered it a mere transitional measure from "total grain monopoly" to "total deregulation" and indeed tried to shorten the transition and commercialize the production as well as purchasing and marketing of grain as soon as possible. In other words, our approach was to bring about total market regulation. This is exactly why we made mistakes when we introduced major adjustments to the grain purchasing and marketing policy in recent years. For instance, in some cases the timing was premature. Before 1985, we had a string of bumper harvests. In their unrealistic optimismism, some people proposed that after monopoly purchasing was abolished and contract procurement was introduced, the state would procure, at low prices, the grain

outside contract procurement, in effect limiting the production of commercial grain by peasants. In other cases policies and measures were not carefully thought out. Contract procurement tasks were slashed repeatedly without a corresponding decrease in monopoly marketing. As a result, we were forced to take administrative measures to increase procurement at negotiated prices from the peasants even as procurement declined. Sometimes policies were not consistent with one another. On the one hand, we stressed that state prices must be strictly followed in grain contract procurement. On the other hand, regarding the procurement prices of most other agricultural byproducts, we emphasized deregulation and the free movement of prices. The inconsistency, combined with the high regard in rural areas for industry and commerce, as well as contempt for agriculture, lowered the comparative economic advantage of growing grain. For the past few years grain production has been stagnating.

A wealth of experience and lessons tells us that when we are dealing with grain purchasing and marketing policies, we must never ignore objective realities and fall back on emotions or our subjective wishes, omitting to do in-depth studies and verifications. At a time when the gap between grain supply and demand is still wide and the state treasury is simply unequipped in the short run to put grain production on a sound footing using the price stimulus alone, we will create a situation in which "prices soar as soon as they are deregulated and there is chaos as soon as prices soar" if we over-emphasize deregulation and invigoration, while paying little or no attention to economic planning and paring down the planned management of grain radically.

The principle of combining economic planning with market regulation in gaining circulation must be adhered to now and in the future. As for the actual methods and extent of such combination, they can be flexibly applied depending on whether we have had a good or bad harvest and the grain supply and demand situation in society. There should be no hard and fast rules. However, major grain procurement and marketing policies must be applied uniformly, nationwide. Step by step we should straighten out the various economic relationships in grain circulation that have become distorted. First, we must sort out the grain relationships under strict state planned management; take into consideration the interests of all parties—the state, peasants, and grain consumers; and, improve contract procurement and monopoly marketing methods. Gradually achieve a surplus in revenues and expenditures account for that portion of grain within the national plan. Adjust state grain purchasing and marketing prices in accordance with a plan based on the principle of gradually increasing the economic incomes of grain growers without excessively burdening the urban consumer. Right now there is

a significant gap between government procurement prices and market prices. The former is also considerably lower than monopoly marketing prices. This situation is abnormal and should be brought to an end. Second, regarding that portion of grain under market regulation, we should manage it in such a way that we can truly say it is "invigorated without causing chaos, managed without being stifled." Besides enterprises engaged in the buying and selling of grain, central and local governments should also participate in market regulation. This is an important way to integrate "economic planning" with "market regulation" organically so that the two can help instead of coming into conflict with each other. Otherwise, even if the government sets maximum market prices and minimum protection prices, they cannot really be enforced. Since the second half of last year, the State Council has decided to ask enterprises to purchase husked rice at negotiated prices. The rice thus purchased will be used by the state to regulate market supply, fill the gaps in enterprise commitments, and hold down market prices. This is a good beginning for government participation in market regulation. In addition, a wholesale grain market should be set up in accordance with a plan to be run by an agency designated by the government. In the interests of fair trade and rational prices, both buyers and sellers must enter the market and do business publicly. Thus [we can] avoid current [problems such as] purchasing agents "going everywhere" and all types of unfair trade which results from a lack of information.

#### Provincial Crop Area, Procurement Prices

40060057C Beijing NONGMIN RIBAO in Chinese  
20 Jun 90 p 2

[Summary] According to estimates from 12 provinces, the area sown to jute and ambari hemp in 1990 will be 5,095,000 mu, and gross output will be 765,000 tons, a 6.4 percent increase over 1989. On average, the procurement price has increased from 1,517 yuan per ton in 1989 to 1,600 yuan. In 1990 the area sown to ramie will be 1,560,000 mu, and gross output will be 139,000 tons, decreases of 23.4 percent and 19.97 percent from 1989. The procurement price for tea will remain at the 1989 level of 5.2 yuan per kilogram. The procurement price for apples will remain at the 1989 level of 1 yuan per kilogram, and the procurement price for oranges will remain at the 1989 level of 0.8 to 1.00 yuan per kilogram.

#### Jiangxi Tea Exports

40060057B Nanchang JIANGXI RIBAO in Chinese  
25 Jun 90 p 1

[Summary] From January to June, Jiangxi Province exported over 40,000 dan of green and black tea, a 329.7 percent increase over the same period in 1989, and foreign exchange earnings increased 380.9 percent. Trade with the Soviet Union increased 18 percent.

### Personnel Shortages in Scientific, Technical Fields

90CM0212A Beijing QUNYAN [PUBLIC TRIBUNE]  
in Chinese No 5, 7 May 90 pp 11-13

[Article by Tan Jiazhen (6151 1367 2823): "Temporary Scientific and Technical Worker Shortage Problem Awaits Resolution"; speech by comrade Tan Jiazhen, representative of the China Democratic League, to the Seventh Plenary Session of the Seventh Chinese People's Political Consultative Conference]

[Text] Under the leadership of the Chinese Communist Party, since reforming and opening to the outside world, China's workers in the scientific and technical battle have energetically promoted socialist modernization. They have grown increasingly strong. Each undertaking has seen flourishing development.

Economic development is determined by technical progress, the quality of workers, and specialized talent that understands advanced technology. In the final analysis, people are the primary factors in productivity. Looking from north to south worldwide, in developing their economies all countries regard highly the training and use of human talent. While we affirm accomplishments, we definitely must not take lightly China's present temporary shortage of scientific and technical workers.

The shortage of scientific and technical workers on the one hand refers to the lack of middle-aged talent. On the other hand it refers to the premature departure of older people from their posts, thereby affecting further progress in scientific and technical undertakings. For example, there will be a retirement peak from 1994 to the year 2000 under present relevant retirement regulations at a research institute staffed by 800 under the Chinese Academy of Science. Some 316 of 591 scientific and technical staff, or 52 percent of the total, will retire during that seven-year period. The situation is equally serious in the medical and hygienic fields. Based on a survey by the Chinese Academy of Medical Sciences, of 365 scientific research personnel studied, midlevel personnel accounted for only six percent. In some research offices there were vacancies even among that six percent. There is a similar situation in the field of higher education. According to a survey of one Beijing institute of higher learning, by 1995 80 percent of the current professors and 76 percent of the assistant professors will retire. There is a severe lack of replacement teachers. Five years from now there will be a big hole in the teaching staff. Statistics from Fudan, Jiaoda, Tongji, and other universities show that if it continues like this, five years from now it will be impossible for schools to continue. This shortage exists in nearly all branches of academia and in many departments. We should greatly guard against it.

Along with this phenomenon, there has been a drop in the quality of research on many topics. For some, it is difficult to even continue. This has shaken the position

of certain leading topics in academia and has weakened competitiveness. If we continue to deploy personnel according to the present annual system, then, the "synchronized retirement" of older scientific and technical personnel and the "synchronized entry" of younger ones may mean that the younger generation will not get proper training and improvement. Moreover, there may be a cyclical effect in the greying age structure of scientific and technical personnel such that the same thing will recur for several decades. The irrational great retirement and entry situation is the same for teachers. Some universities will change beyond recognition in a few years as large numbers of excellent teachers retire and large numbers of teachers enter the profession.

The aging of scientific and technical personnel makes it hard to continue field work for certain geological science departments engaged in research. No one goes to work in the laboratories of institutes of higher learning. If we do not quickly train young scientific and technical workers, then in several years certain work in these departments may be severely affected.

There are multiple reasons for the "gap" in scientific and technical workers. It is directly related to the Cultural Revolution decade of despising knowledge, smashing education, and destroying talent. After the Cultural Revolution, institutes of higher education were restored. Although the academic quality of graduates in this period was quite high, at present the treatment and working conditions for China's intellectuals are comparatively poor. Added to this is weak ideological work, such that talent is dropping out. Among the more than 10,000 youths at the Chinese Academy of Sciences, the drop-out rate of graduate students is up to 39 percent. The college student drop-out rate is as high as 27 percent. According to statistics from 51 institutes of higher learning in Shanghai, from 1986 until August 1989, a total of 3,318 teachers were lost. The majority were middle-aged and young teachers. In some units the drop-out rate among young people is higher than 80 percent. Cultivation of high-quality scientific and technical experts requires good soil and hard individual effort for many years. This is extremely difficult under current conditions.

Here I especially want to mention the issue of treatment for middle-aged scientific and technical personnel. Middle-aged intellectuals received little benefit from wage reform in recent years, dampening their enthusiasm. In 1989 the average cost of living rose 16.3 percent while wages only increased by an average 11.6 percent. Scientific and technical personnel can not even attain this standard. Middle-aged comrades are the backbone of industry. Life is bitter for many of them. This seriously dissipates their energy, affecting scientific research work and leaving them without the strength to take refresher courses to improve.

Because middle-aged intellectuals bear heavy burdens, have low incomes and housing problems, one worries about the state of their health. According to statistics on

the state of health at a research institute in Beijing, 317 people or 40 percent of the entire institute suffer from various illnesses.

In addition, there is a serious shortage of funds for scientific research. Great numbers of scientific research personnel vie for fiscal resources. Individuals and organizations battle, rushing about to all corners, signing contracts, and searching for quick [funds]. This naturally affects the outcome of scientific research and cultivation of students.

In order to resolve the shortage of scientific and technical workers as soon as possible, we recommend adopting the following measures:

1. Continue to advocate throughout society the fine custom of respect for science, respect for knowledge, and respect for talent. As soon as possible, formulate ancillary measures so as to thoroughly implement scientific and technical policies promulgated by the state.

2. Based on the state of health and work conditions of older scientific and technical personnel, postpone retirement ages as appropriate; treat both sexes equally; and let the older generation of scientific and technical personnel play their full roles. As for those who have already retired, find ways to allow them to continue to develop their specialities.

3. Rationally utilize scientific and technical personnel. Strive to improve their living and work conditions. Reduce their fears of trouble from the rear. Paying special attention to making the best possible use of middle-aged scientific and technical personnel.

4. Enhance cultivation of young scientific and technical personnel. Give them the opportunity to become skilled through study, refresher courses, and practice. Allow them to grow into the backbone strength of scientific and technical workers as soon as possible. Make suitable standards. Put them in middle- and high-level posts in a timely manner.

We believe that the present shortage of young scientific and technical workers will be resolved in a timely manner as long as the state formulates suitable ancillary scientific and technical policies, regards highly the cultivation and utilization of scientific and technical talent, and improves their living and working conditions. China's scientific and technical industries will then newly prosper and develop.

## Institutes of Higher Education Lack Enough Teachers

90CM0212B Beijing QUNYAN [PUBLIC TRIBUNE]  
in Chinese No 5, 7 May 90 pp 12-13

[Article by Ma Jibo (7456 0679 5631): "We Should Take Note of the Fault in the Teaching Troops of Higher Learning Institutes"]

[Text] In the past decade of reform much work has been done by institutes of higher learning in regard to selecting, retaining, and cultivating young teachers. This not only filled out the ranks of teachers in higher learning institutes but also allowed a fine young group of teachers of comparatively high ideological and work quality to show their talents. It dissolved people's worries about a "temporary shortage" at the end of the decade of turmoil. Of course, the situation is constantly changing. Hopes and fears often coincide. At present, the problem of "neither end is stable and there is a fault in the middle" among teaching troops at higher learning institutes has reappeared.

One end of the "neither end is stable" refers to the "fever to go abroad," popular among young teachers. People's minds are not settled. The other end refers to older teachers near retirement age. Their thinking is unstable, affecting their enthusiasm for work. The "fault in the middle" refers to the fault in the age structure and academic levels among teachers. According to material on a certain institute of higher learning in Nanjing, 49 percent of the teachers are older than 45, 11 percent are between 35 and 45, and 40 percent are younger than 35. This shows that the largest proportion is of middle-aged and older teachers over age 45, followed by young teachers younger than 35. The smallest number of teachers is in the middle-aged group of 35 to 45 year olds. At present the group aged 45 to 60 of middle-aged and older teachers are the institute's backbone teaching and scientific research forces. They will retire year after year as they grow older. As we enter the 21st century, the task of carrying on will fall upon the shoulders of the current young teachers.

However, the current troops of young teachers are very unstable. Being sick of teaching and fleeing the field are relatively common phenomena. "Fever to go abroad" is extremely prevalent among young teachers. Some 90 percent of them want to go abroad. They are assiduously studying foreign languages and arranging to take the TOEFL [Test of English as a Foreign Language] and the GRE [Graduate Record Examination]. Following are statistics on students studying abroad from a certain institute of higher learning in Nanjing.

	Before 1980	1981-86	1987-88	1989	Total
Number of students studying abroad (of which, self-financed)	29 (4)	146 (25)	125 (49)	108 (59)	408 (137)
Number of students returned	24 (0)	96 (00)	26 (0)	0 (0)	146 (0)

From the table above it can be seen that the number of students studying abroad has increased year by year,

among which the number of self-financed has grown the most. Prior to 1980 self-financed students accounted for

only 17 percent of those studying abroad. By 1989 the number was up to 55 percent, surpassing those publicly financed. Before 1980, almost all publicly financed students returned to China. Thereafter, the number decreased gradually. As for those who were self-financed, not a single one has returned. The majority of those who stay abroad are young people. They account for approximately 30 percent of young teachers. At present the "fever to study abroad" still is warming up. It tends to continue growing.

The run-off of Chinese talent created by the fever to study abroad is frightful. The consequences also are serious. Looking at the near-term, in some institutes of higher learning, classrooms, research offices, and laboratories "have generals but few soldiers" or "have generals but no soldiers." For example, a key state scientific research office at a certain school in Nanjing is run by a committee member of an academic department of the Chinese Academy of Sciences. He was left with five graduate student assistants, but three went abroad. This greatly affected research work and makes one very anxious.

Analyzing the graduate student situation as the source of future teachers, in recent years the number of students enrolled to take exams has progressively fallen. Not enough students are enrolled. Quite a few also drop out along the way. For example, in one department alone at a certain institute of higher learning in Nanjing in recent years, more than eight among 13 doctoral students enrolled dropped out midway. This situation is food for thought.

The "fault in the middle" was created by the break in enrollment at institutes of higher learning during the decade of turmoil. The Third Plenary Session of the 11th CPC Central Committee formulated the policies of reform and opening to the outside world. The state energetically cultivated middle-aged and young teachers. Unprecedented numbers of students went abroad to study, substantially enlarging the number of teachers at institutes of higher learning. However, in recent years this created new problems because it dovetailed with the fever to go abroad. The "fault" reappeared with greater seriousness than in the late 1970's. If it continues to grow, the fault may turn into a "lost-generation" crisis.

Rather complex reasons caused the fault. One factor is the microclimate in institutes of higher learning themselves. Another is the larger social climate. There are the issues of political ideology and actual policies. No matter how complex the situation, relaxation of ideological political education for a certain time period is an extremely important factor. Some young teachers were affected by incorrect social thinking. They sought such western values and outlooks on life as self-planning, self-struggle, and self-worth. In their minds, thoughts of serving the people and bitter struggle are extremely faint. Young teachers are still dissatisfied on three points: First is dissatisfaction with the positions they occupy,

thinking that their own units do not "use them seriously." Above them are middle-aged and older teachers. It will be hard to get their turn at housing assignments, professional promotions, and chances to study abroad for further training. Second is their overly high expectations for housing, wages, and other practical life matters. It is difficult to meet these needs in a short time. Third is insufficient confidence in their futures. They do not teach at ease, believing that if they studied abroad they could "gain both fame and wealth."

It is a pressing yet arduous task to change this situation. We should create environments and conditions beneficial to the healthy growth of young teachers, adopt appropriate measures, and fully resolve their problems. Three suggestions follow:

1. Enhance patriotic education of young teachers. Combine it with socialist and collectivist education. We must strengthen study of Marxism and Mao Zedong Thought, establish a correct world outlook, and promote a spirit of respect toward learning the patriotic spirit of the older generation of intellectuals in order to make great contributions to vitalize China. Institutes of higher learning should give prominence to the cultivation, utilization, and establishment of young teachers, give them correct ideological guidance, give them a free hand at work, and help them resolve practical life difficulties as much as possible.

2. We must stabilize and complete policies, look at things from the long-term vantage, and manifest a spirit of respect for teachers and education. As conditions permit, gradually improve treatment of teachers. When appraising them for high-level positions, pay attention to selecting young teachers based on actual achievements. In some institutes of higher learning, rules are broken to promote those who have made outstanding achievements. At others, when appraising high-level positions, they make special quotas for separate appraisals of middle-aged and young teachers. All these methods can be considered.

3. We must create good work environments and living conditions for middle-aged and young teachers. As for assigning work to students returned from abroad, we must strive to use their specialties and find openings suited to their expertise. We must encourage and support young teachers to actively obtain funds. As the state's fiscal picture changes for the better, we must endeavor to increase housing resources, and strive to be fair and reasonable in reforming housing assignment methods.

We believe that the fault in the teaching troops of institutes of higher education can gradually be bridged provided that work is done well in all respects.



**Mental Status of Mainland Youth Surveyed**

90CM0234A Hong Kong CHING PAO [THE MIRROR] in Chinese No 154, 10 May 90 pp 50-51

[Article by Shen Yen (3947 6056): "What Are Mainland Youth Thinking?"]

[Text] Not long ago, Beijing, Shanghai, and Hunan separately surveyed the mental state of urban and rural youth. The survey report published in this article will be very helpful in further understanding mainland youth. What are Beijing Youth Thinking?

Not long ago, a force from the Communist Youth League organization of Beijing's Machine-Building Industry's Administrative Bureau conducted an investigation of the mental state of young employees in their 40 subordinate companies, factories, and directly-subordinate units. A total of 1,225 people were surveyed. The survey employed such measures as questionnaires, discussions, and interviews. The survey's results show responses [to the question], "What problem are you most concerned about, and which problem do you think the country should solve first?"

1. [I] hope the country has a long and peaceful rule, 70 percent.
2. Concentrate power on punishing corruption and eradicating official profiteering, 45 percent.
3. Eliminate unhealthy tendencies from the party and society, 36 percent.
4. Eliminate social inequities and stabilize prices, 30 percent.

Answers to the question, "What unresolved doubts or questions do you still have?" generally concentrated [on the following]:

1. [I] worry that from here on society cannot be stable and develop.
2. [I] worry about whether corruption can be thoroughly punished and whether [the government] can effectively capture strong popular support.
3. Some who participated in the Tiananmen support activity are depressed. They worry that the struggle will spread and [the government] will not be able to deal properly with the two different kinds of contradictions.
4. Some young workers are very concerned about the trials and the degree of punishment of rebel elements. They worry about whether the government can truly use seek-truth-from-facts as a basis, use the law as a criterion, and handle affairs in accordance with legal procedures.
5. A large portion of the people have strong opinions about the initial stage of putting down the turmoil, about

some of the policies against the personnel of units under investigation, and especially about the beating of people who were falsely arrested.

This survey indicates that presently young Beijing workers are extremely concerned about the country's destiny and future, and hope that the country will be able to have a long and peaceful rule. The punishment of corruption, eradication of official profiteering, rectification of party style, and the elimination of social inequities are still the heartfelt expectations and the urgent demands of the people. At the same time, because the 1989 Tiananmen Incident occurred mainly in Beijing, involvement of local workers and citizens was greatest here, relatively speaking. So the investigation and handling of that incident after 4 June cannot help but cause young Beijing workers concern and anxiety. A great number of the problems [cited in] the answers concentrate on this aspect. This is also reasonable.

**What Are Shanghai Youth Thinking?**

According to surveys of 21 organizations in Shanghai's building, transportation, scientific and educational, and light industry systems, the vast majority of their young cadres presently 35 years or younger have various worries. These directly affect [how] fully young cadres' utilize [their] intelligence, abilities, wisdom, and enthusiasm for work. The results show:

1. A relatively large number of young cadres believe that the organization's work atmosphere is rather oppressive and democratic construction is far from sufficient. Quite a few young cadres have no alternative but to be careful and circumspect in their work and follow the prescribed order. The very young have already lost [their] vigor and have become overcautious "young oldsters."
2. Of the young cadres surveyed, 86.5 percent are rather upset about the weight given to seniority and cadre grade. They say that the vast majority of pay adjustments and promotions, as well as cadre transfers, housing allotments, and awards for organizational cadre are still conducted on the basis of grade: first the "heads," then the "assistants," and finally the "members." The young cadres are placed at the tail end, and forced to "wait in hardship" and "endure suffering."
3. Salaries are deficient. This is the unanimous opinion of almost all the young cadres surveyed. They say that the wages and salaries of cadres in Chinese organizations are in fact the lowest of all trades and professions, even lower than school teachers. They are typical "poor and honest government officials." Moreover, the salaries of young cadres are at the lowest level of this lowest pay grade. Their honest poverty is easy to imagine.

This is the thinking of young cadres in Shanghai organizations. Now let us look at the factories.

Not long ago, the Communist Youth League organization of a Shanghai factory conducted a special survey among some young workers and [asked], "Do you ardently love our factory?" More than 100 surveys were



collected; unexpectedly, about one-fourth of the young workers' responded, "I don't love it." Understandably, in other factories in Shanghai there were also "young workers who do not love the factory." The surveys revealed:

1. Some young workers believe that quite a few of the disciplinary measures and regulations laid down by the factory are unscientific, unfair, and severe, and simply become a "belt-tightening curse" to "punish" or arbitrarily penalize workers.

2. For a period of time quite a few factory leaders have been aware of only one demand, that workers "make greater contributions" to such things as factory production, profits, and honors; they have been perfunctory and even indifferent to resolving workers' legitimate demands over such things as problems in their daily lives, work problems, advancement in studies, or cultural and recreational problems. This has naturally caused workers to develop an aversion to and dissatisfaction with the factory, and they have become even more "counterproductive."

3. Serious inequities have appeared in society and in some factories, further increasing workers' discontent. They believe that these factory directors (or contractors) are using state assets to "make change" for themselves, and "are using us workers as 'tools.' What basis do we have for still 'loving the factory?!"

Thus it can be seen that in quite a few mainland factories some workers, especially young workers, currently have this "antagonistic" relationship with the factory. If this is not resolved as quickly as possible, it will have an extremely harmful influence on the mainland's industrial production and even on its reform and opening to the outside world.

#### What Are Rural Youth Thinking?

Recently relevant departments in Changde, Hunan, surveyed 1,000 rural youth in the Dingcheng district of that city and discovered that:

1. The majority of people expressed indifference toward the government. Sixty-five percent of the young people actually answered the question, "What is your attitude toward the government?" with, "It has nothing to do with me." Of the 1,000 people surveyed, 34.2 percent actually expressed indifference toward the government. Even though the slogan "Take economic construction as the center, and take upholding the four cardinal principles and upholding reform and opening to the outside world as the two basic points" has been widely publicized on the mainland for a very long time, and even though it has almost been a requirement for major and minor officials to bring it up, whether at congresses or small meetings, only three of the 100 rural youth surveyed at the Haozigang agency knew [the slogan] "one center, two basic points!"

2. Over half the rural youth do not love the village. Presently most rural youth, especially educated youth who have returned to the countryside, do not like the

village, do not study agricultural techniques, and do not serve the village. Of the 1,000 rural youth surveyed, 55.8 percent were fed up with the village. A certain township even had a 21-year-old peasant woman seek out the agency's party secretary to say, "I will marry anyone who can help me escape the 'farm gate!'"

3. A rather large number of young peasants have defiant behavior. They do not want to hear about "major principles." They do not want to accept restrictions, and they express dissatisfaction with society. In 1989 alone, Niubitan village had 283 youths form a gang and run rampant through town, fighting, robbing, raping women, and committing all sorts of outrages. In Zhonghekou township, an educated youth who had recently returned to the countryside to farm felt that society in general had cheated him, so he gathered up some young peasants from the surrounding area and formed a gang to disturb society. After this gang was apprehended and jailed by the police, someone wrote in a confession, "Society cheated us; we were only taking revenge on society!"

4. There are still quite a few rural youth who are pessimistic. They make up about 13.1 percent of rural youth. The majority of them are young women from impoverished families who have nothing to rely on and no future to look forward to. These young people feel that there is no joy in this world, and vexations and worries are really too much. No matter where they look they do not see anything worth looking at; no matter what they listen to, they do not hear anything pleasant. They are disgusted with real life, to the point where they even consider becoming Buddhist nuns or monks or studying Taoism, far from the mortal world. This type of negative, pessimistic thinking leads to quite a few suicides among rural youth. In 1988 alone, in Dingcheng District's Hefu agency, 21 young people committed suicide by taking pesticides!

The facts given above are ample evidence of the seriousness of the problems faced by rural youth in recent years. If this backward mental outlook is not attended to and promptly turned around, it will make empty talk of China's healthy agricultural development and its construction of a modern, new countryside!

#### Beida Professors, Students Reflect on Opium War 90CM0259A Beijing LIAOWANG [OUTLOOK] in Chinese No 21, 21 May 90 pp 30-32

[Article collated by Fang Lixin (2455 4539 2450) and Deng Jiuxiang (6772 0036 5046): "We Must Remember Our National Humiliation and Strengthen China—Beijing University Professors and Students Commemorate the 150th Anniversary of the Opium War"]

[Text] After the Opium War, which was started by British imperialism 150 years ago, began to reduce China to the status of a semicolonial, semifeudal society, our ancient Chinese mainland was trampled and trodden on, and the Chinese people were subjected to untold

humiliation and suffering. The worthy sons and daughters of the Chinese nation who were unwilling to surrender, held high the banner of patriotism, resisted continuously and heroically, and finally liberated China under the leadership of the CPC. How to carry forward our patriotic traditions, remember the bitter lesson that we were beaten by our own backwardness, and shoulder the sacred mission of strengthening China under today's new historical conditions, are matters which are still tugging at the heartstrings of Chinese youth. The Beijing University [Beida] Communist Youth League [CYL] Committee recently invited certain Beida professors, students, leaders, and alumni to take part in an informal discussion on these matters.

**The History of the Chinese Nation's Rising in Resistance To Defend China's Dignity and Independence in the Midst of Humiliation and Suffering Since the Opium War, Must Never Be Forgotten**

**Li Xiaojun** [2621 2556 6511] (deputy secretary of the Beida CYL Committee): The basic reason why the Chinese nation has never been conquered despite the repeated invasions and partitions of China by imperialist powers since the Opium War is that the Chinese nation's patriotic spirit has been displayed to a high degree by countless people with lofty ideals, who have carried out an unyielding struggle which has been inspired by the spirit of patriotism. Faced with the erosion of our national spirit by national and historical nihilism 150 years later, we college students of our time should remember well the humiliation that we have been subjected to in modern history, carry forward the Chinese nation's patriotic traditions, preserve our national sense of pride, confidence, and integrity, fight to strengthen China, and take an active part in the great cause of building socialism with distinct Chinese characteristics. This will be the best way for us to commemorate our history.

**Tang Xiankai** [0781 7359 0418] (graduate history student at Beida): I sincerely hope that we student youth will learn a little bit more about our history when commemorating the 150th anniversary of the Opium War. Although there are very complicated reasons for the lack of study of history in recent years, which some people have called "the history crisis," putting other reasons aside, the main one is the extraordinary lack of importance that we students ourselves have attached to history. Moreover, a host of facts prove that we will be bound to pay a historic penalty if we forget our history. The key to why various erroneous ideological trends have been able to capture the minds of certain of our fellow students, is that they were unable to find correct struggle orientations and take their own correct stands because they did not understand history correctly.

While, on the one hand, imperialism has trampled and plundered China since the Opium War, on the other hand, the tenacious resistance of the Chinese people has never ceased. This is the basic reason why our nation has survived despite the suffering that we have endured.

Because a nation without a spirit of patriotism has no hope, we must study history in order to better display our spirit of patriotism, enhance our national confidence, and conscientiously throw ourselves into the great cause of strengthening China.

**Wang Xiaoqiu** [3769 2556 4428] (associate professor of history at Beida): A nation should remember its national humiliation if it wants to have hope. The roar of guns at the mouth of the Pearl River 150 years ago was the beginning of our national humiliation. Our history ever since has been a bloodstained one of imperialism invading and devastating China, plundering China's wealth, and massacring Chinese people. It would be a betrayal and a crime to forget this phase of history. Moreover, we must also remember the history of the struggle of the Chinese people. Why has the Chinese nation been able to survive despite suffering such frequent hardships and invasions? We have relied on countless people with lofty ideals and revolutionary martyrs who have laid down their lives for our just cause. They were able to safeguard our national independence and honor only by advancing wave upon wave as fearless martyrs under the most glorious banner of patriotism. The New China of today, which enjoys independence, sovereignty, and dignity, was possible only because these martyrs paid for it with their lives and blood. Patriotism is a lofty quality of humankind, and a deep affection and duty toward one's country and nationality, which is reflected in national pride and confidence. If we can constantly take the initiative to become stronger and learn from our past humiliations, there will be great hope for our nation, which has had its fill of suffering. This means that we must make it a project of vital and lasting importance to constantly teach patriotism to our masses of people, and especially to the younger generation.

**Wang Rufeng** [3769 3067 1496] (Beida alumnus and associate professor of history): The Chinese people have been subjected to much humiliation and suffering since the beginning of the Opium Wars. After the second Opium War, the famous patriotic thinker Feng Guifen [7458 2710 5358] said that all courageous and upright Chinese must remember this galling shame and humiliation. After the "Maguan Treaty" was signed in 1895, our great noble-minded patriot Tan Sitong [6223 0843 0681] penned the following lines out of a feeling of extreme grief and indignation: "400 million people are tearfully asking, 'Where in the world is our Divine Land of China going?'" Looking back on this phase of history certainly leaves us with a deep sense of humiliation, grief, and indignation.

Our history since 1949 has given us a sense of dignity and has made the Chinese people feel proud and elated. How did we bring about this earthshaking change? We finally won it only after over 100 years of constant resistance by the Chinese people under the leadership of the CPC to imperialist aggression and oppression. This is something that we should certainly cherish and never forget. As imperialism certainly did not stop wanting to destroy China after 1840, why was it unable to? This is

because our nation has had the great force and pillar of patriotism. The CPC has helped us to better display and enhance our patriotism. We must continue to hold high the banner of patriotism under the leadership of the CPC so that the Chinese nation can stand forever like a giant in the Orient.

**Lin Huaguo** [2651 5478 0948] (associate professor of history at Beida): We all know that our modern history is one of imperialism invading China. What is surprising is that some people now want to reverse the verdict of our war against aggression. For instance, some people have been thinking and saying in recent years that, although Great Britain was the aggressor and it was just to resist it, the resistance was not necessarily justified. Why have they been saying this? They think that since Great Britain had capitalism which was more advanced than China's feudalism, their aggression helped us to advance and our resistance was a failure to appreciate their kindness! This so-called theory of "developing China through colonialism" is downright absurd. Everyone knows that it is precisely imperialist aggression and plundering that caused China to remain so weak, undeveloped, poor, and backward for so long. This talk which obviously violates common sense, shows the colonial mentality that still exists among some people due to the legacy of our long period of colonial rule. It is incompatible with our patriotic traditions and harmful to the feelings of the Chinese people. Aggression is aggression and plundering is plundering, and modern Chinese history cannot be distorted or altered.

**Our History Tells Us That Since We Lost the Opium War Because We Were Backward, We Must Now Concentrate Our Efforts on Doing a Good Job of Developing Our Own Country**

**Wang Zhengliang** [3769 2973 5328] (graduate student of international politics at Beida): China lost the Opium War because we were backward. The reason why China, which had a 5,000-year history and a population of 400 million people, was subject to so much humiliation in modern times, was the corruption and incompetence of our feudal rulers and our lack of national strength. Contemporary Chinese youth are proud that the Chinese people have finally stood up under the leadership of the CPC, and that no foreign country can bully, humiliate, or plunder us again. Although China is now playing an important role in the international arena and becoming increasingly powerful and prosperous, we of the younger generation cannot rest on our predecessors' laurels, but instead must have a deep love for and do a good job of developing the People's Republic, for which they laid the foundation. How can we do a good job of developing our country? As college students, we are charged with the heavy responsibility of being ready to devote our efforts to developing China's science and culture and improving our national character under the leadership of the CPC. This means that we must look for inspiration and enlightenment to the path that our forerunners took to save the nation and the people, which was subordinating

individual growth and personal needs to social development and national needs. Some young people nowadays talk about "making their own plans," and regard individual growth as the highest ideal and objective. This excessive exaggerating, projecting, and placing of self above all else is terribly wrong. The greatest kind of self-realization is finding the best way to combine personal interests with social and national interests, facing up to the place that we occupy in history, and making our own contributions to our country. Have not all people with lofty ideals in modern history realized their own value through heroic struggle and even sacrificing their lives for their country? Furthermore, self-development would be impossible if the country were not prosperous and powerful. Our country's present course of building socialism with distinct Chinese characteristics provides us with the opportunity to give full play to our talents and ambitions, while making great demands on us to base our aspirations on our national conditions, be pragmatic, and subordinate ourselves to the higher interests of the state. This will leave us with a clear conscience to history and our ancestors.

**Han Tianshi** [7281 1131 6221] (former party committee secretary at Beida): Every period has issues among the masses that urgently need to be resolved and constantly change with the changing times. As whoever can seize the most pressing current issues among the masses will represent the times, I think they will be forerunners and progressive figures. The most pressing issue among the masses during the more than 100 years from the Opium War to the end of the War of Resistance Against Japan was national independence. The most pressing issue after the Japanese aggressors were defeated was the oppression and exploitation of the masses by feudalism and bureaucrat capitalism. It was precisely the advanced Chinese people, represented by Chinese Communists, who seized on these issues, struggled heroically, became the pride of the Chinese nation, and are celebrated and revered by the Chinese people. The most pressing issue that we have faced since the founding of the PRC has been the elimination of poverty and backwardness. As our historical responsibilities constantly change along with the constant changes in the most pressing issues that the masses are faced with, the actions and countermeasures that we take should also change correspondingly.

In order to eliminate our poverty and backwardness and build and develop our country at present, we need stability so that we can wholeheartedly develop our economy, science, education, and culture, instead of continuing an intense struggle. Everyone must conscientiously remember the profound lessons that we have learned in this area. As an alumnus of longstanding, I think that my fellow students at Beida should also assimilate these lessons. History has proved that the examples set by Beida have certainly not necessarily been correct. The May 4th and December 9th Movements were correct because the actions of Beida students at those times were in keeping with the interests of the whole nation. But from today's perspective, was not the

appearance at Beida of the "first Marxist-Leninist big-character poster" during the Cultural Revolution a mistake? I think that the basic criteria for correctness must be whether the best interests of the masses are represented. The best interests of the whole nation at present are the need for sustained, steady, and coordinated political and economic development. We younger generation must develop our country premised on subordinating ourselves to these best interests. The facts have proved that the method of "great democracy" will not work to resolve either economic or political issues. How can we even talk of developing our country if things go contrary to our wishes because we do not act in accordance with the laws of development of our country? Although I am all for making full use of democracy, it must not be done by illegal and nondemocratic methods. Our student youth should think this point through, proceed from China's national interests, and keep their actions always consistent with the interests of the masses. Only in this way will we be able to make our greatest personal contributions to our national development.

**Our History Since the Opium War Shows That Only Socialism Can Save China; Patriotism and Socialism Are Basically the Same Thing in Today's China**

**Wu Shuqing** [0702 2885 7230] (president of Beida): Our past 100-odd years of history have left us with the indisputable reality that without socialism, it would have been impossible to realize the aspiration of the Chinese people for independence. Our youth have various views on how to develop our economy and make China prosperous and powerful. I would like to illustrate how our past four decades of history have proved that socialism is the only way to make China prosperous and powerful. Although we began building from such a low point and have made many mistakes in the last four decades, including the disastrous one of the Cultural Revolution, we were finally able to establish a completely independent economy and lay the essential material foundation for the achievement of modernization. As long as we adhere unswervingly to our stand of one center and two main points, China will develop increasingly faster. A knowledge of modern history is all that is needed to understand that capitalism does not work in China. Although our forerunners tried this route and studied capitalism, they were unable to learn it because their teachers always bullied them. The Western countries are now so keen on promoting the "peaceful evolution" of socialism because they are afraid that socialism will become prosperous and powerful through reform, become a new adversary in global strategy, and threaten capitalism with its enhanced appeal. Whereas, if socialism evolved into an appendage of Western capitalism, they would be able to contain, oppress, and exploit us. Thus, we must strengthen our resolve to build socialism faster.

Since the Opium War, advanced Chinese intellectuals have stood in the vanguard of the times, and have composed a glorious chapter in the realization of our

national independence and dignity. As our youth are so full of vigor and wish to put themselves in the vanguard of the times, the criteria with which to judge whether they now stand there are whether their words and deeds represent 1) the direction of historical development, and 2) the wills and interests of the greatest number of people. As the current direction of historical development is toward socialism, and the interests of the greatest number of people are to make China prosperous and powerful, develop our economy, and eliminate poverty and backwardness, our student youth should establish the objectives and struggle ideals that they wish to pursue based on the best interests of the masses. As adhering to the socialist road and developing China well is a glorious but arduous undertaking, whoever joins this cause will stand in the vanguard of history. Whereas whoever's words and deeds are detrimental to the stable development of China will be holding back history no matter what they may say.

**Chen Wei** [7115 0251] (geology student and chairman of the campus student union): The struggle of the Chinese people to resist foreign aggression and become stronger since the Opium War has been a process of step-by-step spiral development, all the way from the early phase of the long-range strategy of learning from foreigners to control them and applying Western methods to Chinese institutions, to studying Western political institutions, to embracing Marxism in the May 4th era, and finally to choosing socialism as the way to save the country. A qualitative change had occurred in this process by 1949, which was caused precisely by the consciousness of the Chinese people being raised so high through revolutionary experience under the leadership of the CPC and the guidance of Marxism. To still doubt today the ideology that was pursued by our forerunners, would undoubtedly be to turn back the wheel of history.

**Wang Xuezheng** [3769 1331 3791] (party committee secretary at Beida): Beida was one of the earliest fronts for propagating Marxism and disseminating socialist ideology, and was also where the CPC set up its first branch in the north. Beida has the tradition not only of our great democratic patriot and educator Cai Yuanpei [5591 0337 1014], but also that of our great Marxist revolutionary Li Dazhao [2621 1129 6856]. The last thing that General Secretary Jiang Zemin said in his invitation to 13 of our fellow students at Beida to take part in this informal discussion in March 1990 was that he hoped that Beida professors and students would be able to carry forward our glorious progressive and revolutionary traditions. Moreover, he pointed out that liberalism, anarchism, and national nihilism are not Beida traditions. These are things that we should study and master conscientiously in reviewing our history to understand the truth.

**Liang Gui** [2733 2710] (deputy party committee secretary at Beida): Advanced Chinese intellectuals have taken patriotism as their ideological prop in the various struggles which they have carried out in modern history to save their country. As they were bound to find the true

way to save the country with this patriotic spirit, by the time of the May 4th period they had finally found Marxism which, combined with China's revolutionary experience, was bound to turn them toward socialism. This was a fundamental experience both in China's modern historical development, and also in the history of Beida. History has proved that it would have been impossible to push China toward independence, prosperity, and strength by relying on abstract or bourgeois democracy and science alone. People, such as Li Dazhao, linked democracy and science to our new revolutionary struggle by investing them with the new concepts that democracy is not representative democracy alone, but rather people's and socialist democracy, and science is not simply ordinary natural science and bourgeois humanities and social sciences, but rather a new science guided by the world outlook and methodology of scientific Marxism. I think that Beida can be fundamentally characterized as having boldly thrown itself into the patriotic revolutionary struggle under the guidance of Marxism and the leadership of the CPC ever since the May 4th era. I hope that our student youth will stand in the vanguard of the age by closely linking their ideals and futures to the destiny of their country and combining patriotism with socialism.

### **Patriotism Reflects National Resilience**

90CM0267A Beijing GUANGMING RIBAO in Chinese  
15 Jun 90 p 3

[Article by Miao Fenglin (5379 2800 2651): "Patriotism and Opening Up"]

[Text] For a long time now, some political scientists abroad who study the issue of China have been mystified. For more than 100 years the big powers have plundered such a weak country as China again and again. Traitors have sold the country repeatedly. Some even proclaim that China is merely a geographical concept, no longer the name of a country, yet it still towers like a giant in the world. Why does this ancient race have such an incredible vitality? Why does it have such a strong attraction?

The profound mystery here lies in the ingrained patriotic ideology of the Chinese people. Just as Comrade Jiang Zemin noted, patriotism "is a sublime spirit embodying the masses' deep feelings toward the fatherland. It is intimately related to promoting historical development. It is intimately related to preserving national independence and the fundamental interests of the broad masses of the people." For people born on this Chinese soil, deep in each of their hearts there stands a patriotic monument. Carved upon the monument are the names of those who have made contributions and sacrificed for the race. Those traitors to China and betrayers who work for imperialism are forever nailed to a disgrace list. This is our national spirit. It is not only in the ancient books and annals of history but also is submerged in social consciousness and national traditions carried on from generation to generation, surging in the people's hearts.

There is a soul-stirring line in China's national anthem that says "Use our blood and flesh to build a new city for us." This is not artistic exaggeration at all, but rather historical facts written in blood. According to the historian Liu Danian's [0491 1129 1628] calculations, between the Opium War and the founding of New China, China lost 100 million heroes in sacrificial striving for national independence and the war of liberation as well as imperialist murders. If the mortal flesh and blood of these 100 million people were placed head to foot, they would encircle China possibly more than four times. This is a historically unprecedented sacrifice. It is a testimony to the Chinese race that will abruptly awaken one from dozing. Of course, the road to awaken the dozing Chinese people is not flat. It is a twisting and turning path. Still, it is precisely in the twists and turns that the melody of patriotism always sounds.

"Expel the barbarians and destroy Westerners" early on awakened the patriotism of the Chinese people. It was a manifestation of a kind of colonial consciousness represented by an anti-imperialist tide of righteousness and unity. Naive and immature, it was not without blind xenophobic sentiments. However, it ultimately played a correct patriotic tune. It reflected the great Chinese people in the face of aggression from foreign enemies. The indomitable spirit of the people is not awed by strong enemies. Their struggle moves one to song and tears. At the time, the British press censured Chinese people for resisting aggression by night raids, drug-running "savagery," and "barbarism." The great proletariat revolutionary Engels angrily denounced them, saying the aggressors bombarded defenseless Chinese cities. Besides killing people, they also raped women. The resistance of the Chinese people was an act in defense of country and home, a war of survival for the Chinese race. As for what methods were used, as far as the Chinese people are concerned, what does it matter?

Blind xenophobia ultimately was not the original intent of the Chinese people in seeking national independence. It is not worthy of our friendship- and civility-stressing race. The error in understanding occurs in taking all of the outside world as hostile powers, the result of which is to isolate oneself. Furthermore, it is easily used for megalomaniac and closed national policies of corrupt governments, becoming a tool to maintain and preserve feudal rulers.

"Study the technology that the barbarians are good at in order to conquer the barbarians." That is, study Western science and technology in order to make China prosper. This is a new pursuit of people of lofty ideals who seek a path of liberation for China. They assail corruption in society and call for an innovative "tempest" and translation of Western literature, paying attention to developing economics. After observing and studying the Eurasian situation, the prominent thinker Wei Yuan [7614 3293] and others made a powerful proposal that expanded the field of vision of the Chinese people, inspiring the will to fight on behalf of greater China. Their proposal deepened the desire of the Chinese race

for liberation. This was the first time patriotism stepped out of its locked cage. However, how could it be easy to discuss learning from the West under the rule of a corrupt regime called "the court of Westerners"? Particularly for advanced Chinese who took the West as a teacher, the path where "the teacher always paddles students" was still unapproachable.

The national war of liberation led by the Communist Party of China defeated imperialism and its running dogs. It sought national independence. Thereafter, it opened to the outside world as a sovereign nation and built a modern socialist country with Chinese characteristics. This was a path to self-improvement sought by the Chinese people after countless defeats and setbacks. It was a historical choice. The Chinese people who advanced with big strides along this path used facts to prove that it was the only way to make the country and people prosper.

Some might ask if China's policy of opening to the outside world is not a return to the old "open door" policy of the big powers toward China more than a century ago? As a component part of the big powers' strategy to encroach upon China, they really did compel China, by force of arms, to an "open door policy" more than 100 years ago. It is common knowledge that this was not an opening to the outside world. Rather, its real meaning was to surrender the rights of a sovereign nation under humiliating terms. It was unbridled cultural aggression and economic pillage against China. The opening to the outside world practiced by China today is one undertaken by a sovereign nation upon the principles of equality and mutual benefit. Historical experience tells us that China was in a backward state for a long time. One important reason was its closure to international intercourse. Construction cannot be accomplished with the door closed. Comrade Deng Xiaoping has noted, "Calculated from the middle of the Ming dynasty until the Opium War, there were three centuries of closure to international intercourse. Calculated from the reign of Kangxi, is another nearly 200 years. China was poor and backward, benighted." The bitterness partaken by our forefathers should be turned into experience. However, it won't work if people now try to use China's opening to the outside world to renew the "open door" policy and make the Chinese people swallow unfair, bitter fruit. It is likewise impossible for anyone to consider using sanctions and blockades to compel China to close up again.

Human civilization is the common wealth of mankind. The Chinese people have never refused to accept the best fruits of world civilization. What China opposed in the past were the deals made by civilization mongers. Today China is still highly vigilant regarding new civilization mongers. It is entirely possible for the Chinese people who have stood up to draw to themselves useful things from human civilization.

Because we understand that China's development is inextricably related to world civilization, it should be

noted that in human civilization's developmental history, China is a country that created a splendid and glorious ancient civilization. It has contributed no less a share than any other country. Dr. Joseph Needham, the British scholar who is renowned for his study of Chinese culture, science, and technology, said: "Some often think that only Western European culture is of real historical value. This kind of thinking is wrong. If one really wants to talk about a civilization of historical value, then the honor belongs to China."

It should also be noted that Chinese civilization was handed down civilly. As early as the Han-Tang era China was an open country connected by sea and land in friendly relations to various European, Asian, and African nations. Anyone who has studied world history carefully knows that China's great economic and political slide happened only in the modern age. History has proved that using civil means, the Chinese people have made a great contribution to human civilization. Today, on the path to prosperity, China, an age-old historical civilization, is building a socialist country. It will continue to make its own contributions to human civilization and will draw the most vital flowing water from the river of human civilization.

#### Profile of WENYI BAO Editor Chen Yong

90CM0276A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 6, Jun 90 pp 92-95

[Article by Liao Yinong (1675 0001 6593): "'Old Cultural Fox' Chen Yong"]

[Text] Ruthless and hypocritical, he kills without blinking an eye. Yet he talks about "literary ethics." He spends his whole life destroying writers and is still hard at work, ruining the literary world and controlling writers. He began his attacks back in Yanan and has tormented Xiao Yemu [5618 0048 3668], Lu Ling [6424 5044], Qin Zhaoyang [4440 0340 7122], and Liu Zaifu [0491 0375 1788] over the decades. Even today he is riding high under the Li Peng regime.

Chen Yong [7115 8673], who made a name for himself in 1986 for criticizing Liu Zaifu in HONGQI [RED FLAG] from the high plane of principle and two-line struggle, has become a prophetic hero since the 4 June incident, again tormenting and destroying the literary and artistic community. Disregarding his 72 years, he took up the chief editorship of WENYI BAO, the mouthpiece of the Chinese Writers Association, changing it beyond recognition. Moreover, he has published articles asserting the correctness of "taking class struggle as the key link."

According to writers on the mainland, Chen Yong is not a man of learning and knows nothing about theories. He has read neither foreign literary works nor ancient Chinese literature. As for contemporary works, he reads them only when he hears that there is a problem. Then he reads them in order to write criticisms. Unlike Lin Mohan [2651 7817 3211], however, who is always on the prowl, he hits out only at a critical moment. That is why

they call Lin Mohan a "cultural wolf" and Chen Yong a "cultural fox," another kind of cultural killer. To understand the characteristics of people like Chen Yong is relevant to appreciating the conditions on Mainland China today. We can then understand why modern Chinese culture has bred this kind of "monster," extremely vicious, extremely hypocritical. He kills without blinking an eye, yet he talks about "literary ethics." He has purged to death a host of people, but he does not feel a twinge of guilt. He spends his entire life destroying writers and is not too ashamed to continue to control them today.

Chen Yong used to be known as Yang Sizhong [2799 1835 0112]. A native of Nanhai, Guangdong, he attended junior teachers college in Guangdong. In 1938, he was enrolled at the Chinese People's Anti-Japanese Military and Political College in Yanan. Later he served as secretary to Xiao Jingguang [5618 0513 0342] (commander of the rear headquarters of the 8th Route Army) and editor of the supplement of JIEFANG RIBAO.

#### "Yang Sizhong" Resorting to Violence In Yanan

In Yanan he was already a hatchet man attacking intellectuals viciously. His malice and viciousness are little known. To get a better idea of his true colors, take a look at this expose by a senior CPC cadre.

The cadre is Hong Yu [3163 4416], a former head of the theory bureau of the CPC Central Propaganda Department. He published an article in the fourth issue of DUSHU [READING] in 1986. The article, entitled "The Bearing a Leader Should Have," was based on his experience in Yanan when Mao Zedong personally handled his appeal after he has branded a "KMT agent." (Mao Zedong wrote to him.) Hong Yu was originally a cadre on the front of resistance against Japan in the 8th Route Army. In 1943, at the height of the War of Resistance Against Japan, he was suddenly ordered to leave the anti-Japanese base in Taihangshan to return to Yanan immediately. Military orders are like mountains, so he had no choice but to climb mountains and cross rivers to rush back to Yanan despite the risks involved. What he did not realize was that he was ordered back to Yanan simply because Kang Sheng [1660 3132] (leader of the movement to rescue people who "have taken a wrong step in life") had determined that he was a "KMT agent." Never did he imagine that shortly after his arrival in Yanan, in the wee small hours on one of the coldest days of winter, ultraleftist elements assigned to rescue people by Kang Sheng would burst into his house and drag him from his bed to obtain confessions by compulsion and give them credence. He was shivering with cold, but the leftists engaged in "rescue" said to him, "If you are not an agent, why do you speak so softly in Cantonese to your lover?" Surprisingly there was even a writer among these utterly unreasonable leftists. Hong Yu unmasked him, writing:

"A well-known writer taking part in the 'rescue' pulled my hair and dragged me back and forth in the cave, at

the same time hitting me on the head savagely with his 'culture' stick. I protested, but he said, 'If we find proof in the future that you are not a spy, I will apologize to you. You can even hit me back.' Who was this 'well-known' writer who pulled the hair of an 8th Route Army cadre and hit people with his 'culture' stick?" Who was this 'well-known' writer who treated a revolutionary comrade with his bastardly logic—hit the guy first, talk things out later? If it turns out I was wrong to hit you, you can hit me back. None other than Chen Yong, who went by the name of Yang Sizhong at the time."

Hong Yu appealed to Mao Zedong in writing in 1946. Mao Zedong wrote back on 12 March, saying, "I feel apologetic to you and many comrades for the numerous mistakes we have made in our work." (See *Selected Correspondence of Mao Zedong*, letter dated 12 March 1946.) According to Hong Yu, this writer's attitude was exactly the opposite of Mao Zedong's. Hong Yu wrote, "Compared to the leadership style of Mao Zedong, the well-known writer who resorted to violence against me presented a different personality. He and I were assigned to the same group during the representative congress for organs directly under the CPC Central Committee in the 1950's. When he saw me at the congress, he seemed a little awkward. This shows that he felt guilty inside. On the surface, however, he behaved as if he had never met me."

Some writers in literary circles were shocked at Hong Yu's article and speculated who this well-known but vicious and rascally writer was. To save the writer's face, Hong Yu did not disclose his name. The editorial department of DUSHU was also kept in the dark. However, to show that they were not this violent person, some writers who had taken part in the rectification movement in Yanan subtly let out word that it was Chen Yong, adding quickly, "The person to blame was really Kang Sheng, that bastard. Chen Yong was only being used."

#### The First Shot Fired at Xiao Yemu

It was June 1950, barely six months after the PRC was founded. Intellectuals were still full of hope about the newborn era and writers were still eulogizing the New China. It was then that the first terrible shadow was cast on writers—the campaign to criticize the novel by Xiao Yemu, *Between Me and My Spouse*. And the first person to launch an attack was Chen Yong. This part of China's history has already been chronicled in *A History of Modern Chinese Literary Thought* published on the mainland two years ago:

"The first article to criticize Xiao Yemu was 'Some Tendencies in the Writings of Xiao Yemu' by Chen Yong. It was published in RENMIN WENYI, a supplement of RENMIN RIBAO, on 10 June 1951, not more than 20 days after the publication of 'The Movie *The Story of Wuxun* Should Be Taken Seriously.'"

*The Story of Wuxun* was a movie, while Xiao Yemu belonged to the world of letters. Thus began the endless and frightening ideological struggle on the mainland.



The charge leveled against Xiao Yemu by Chen Yong was simply ridiculous. He said Xiao Yemu "observes and portrays life from the perspective of the petty bourgeoisie." Xiao Yemu wrote about a female revolutionary cadre who started out as a worker and who retained some old ideas and tastes. This shows that after entering New China, Chen Yong claimed, the writer continued to harbor old viewpoints and tastes, "a very serious matter." After Chen Yong's article was published, Feng Xuefeng [7458 7185 1496], Kang Zhuo [1660 3541], and Ding Ling [0002 3781] also wrote critically of Xiao Yemu. Under the pressure of criticism, Xiao Yemu was forced to admit his guilt and wrote a self-critical "I Must Correct My Mistakes in Earnest."

This was the first time Chen Yong achieved prominence in the literary and artistic circles. From then on he became famous. He came to the attention of Ding Ling, who was running WENYI BAO at the time. In "A Letter to Xiao Yemu: Look at It as a Tendency" (10 August 1951), she praised Chen Yong for "moving forward under normal conditions in order to protect people's literature and art and pragmatic literature and art." The criticism of Xiao Yemu was said to be a "good beginning." It did not occur to Ding Ling that after this "good beginning," she too would be included in the ranks of "rightists" that must be sacrificed in the interest of "protection."

#### The Most Brutal Chapter: Criticizing and Denouncing Lu Ling

Although he played a part in criticizing and denouncing Xiao Yemu, thus far Chen Yong had not used his skills to pull hair and brandish his "culture" stick to the full, as he did in Yanan. After 1954, as the sense of foreboding intensified in the world of letters, he became more and more vicious, epitomized by his deadly assault on Lu Ling, a writer. He began criticizing Lu Ling even before the CPC Central Committee went public with the Hu Feng [5170 7364] materials.

Lu Ling was only 27 in 1949, but he was already writing novels like *Children of a Rich Man*, and had written more than 1 million characters. His creative ability amazed such objectivist critics as Liu Xiwei [0491 6007 6182] and Feng Yidai [7458 0076 0108] as well as the critic Hu Feng, who advocated "subjective fighting spirit." Liu Xiwei considered him the future Zola of the East. Mainland fiction historians of the 1980's described him as an "unfinished genius." After 1949, an overjoyed Lu Ling, bursting with creative energies, hailed the birth of a new China. He took to the streets, to factories, and finally to the Korean front. He wrote short stories, medium-length novels, novels, and plays, eulogizing the CPC, the volunteers, and the proletariat. He published one work after another... *Welcome Tomorrow, The Motherland...* He even joined the volunteers in combat at the Korean front and wrote *War and Peace in Korea*, a 300,000-character piece praising the heroes who resisted U.S. aggression and aided Korea. In the words of Liu Xiwei, he had a "drive" like the "mighty Chang Jiang,"

full of passion, vitality, sincerity, childlike innocence, and an explosive creative force. He was one writer who could truly reflect the atmosphere after the triumph of the new regime. No wonder Zhou Enlai took an interest in him at the Korean front.

But just as Lu Ling was singing with all his might on the front, Chen Yong, jealous of his talents, began attacking him. He spent about half a year writing with painstaking care a lengthy paper entitled "The Ideological Tendencies of *Children of a Rich Man*." People ridiculed him, saying that on the front, where life and death hangs by a thread, Lu Ling had fought his way from the Yalu to the 38th parallel, but Chen Yong had not yet finished his killer article. One was fighting valiantly on the front. One was shooting at the solder from the rear, denouncing the former as "anti-Marxist" while declaring himself as the "true Marxist." In his article Chen Yong vilified Lu Ling's novel in each and every way, assailing it for praising "reactionary bourgeois individualist intellectuals" and people like Jiang Zuchun (the novel's protagonist) who were said to be "staunchly opposed to Marxism." It exhibited, so Chen Yong claimed, a "tendency to fear Marxism and proletarian forces."

When the CPC Central Committee made the Hu Feng materials public and a nationwide campaign began to ferret out the "Hu Feng antirevolutionary clique," Chen Yong became a prophetic hero overnight. Attacking brutally, he gave up the pretense of scholarliness. He examined his criticism of Lu Ling and concluded that it lacked "incisiveness." He also wrote two articles. The first was "Safeguard the Lu Xun Direction; Smash the Antirevolutionary Thought of the Hu Feng Clique" (published in WENYI BAO, No 16, 1955). This article used the extremist expression "smash" for the first time and was full of hysterical denunciations. The other article was "Recognize Clearly the Antirevolutionary Nature of *Fighting in Low-Lying Land*," in which he argued that Lu Ling's work (a volunteer soldier named Wang Yinghong fell in love with a Korean woman and left behind a blood-stained handkerchief before he was killed in action) "distorts the nature of war" and was "a vicious attack on revolutionary discipline." "Who else but antirevolutionaries who are extremely hostile to revolution and have ulterior motives are capable of this?" Moreover, he argued that Lu Ling's "enthusiasm" for resisting the U.S. and aiding Korea was a "ruse to mask his antirevolutionary activities." He wrote that such "secret double-dealing" was "much more subtle and insidious" than the "nationalist literature" of the 1930's which "openly served imperialism." His article used the nastiest words there were to vilify, slander, and malign. It was unfair and exaggerated. It was merciless in its attacks. It still can send cold chills down one's spine even today. Lu Yuan [4845 0626], a poet, wrote in 1985, "The criticisms of Lu Ling in the early 1950's can truly be described as 'a flood of invective' both in nature and in scope. Such utterly unreasoned criticism had become commonplace by the late 1950's."

In the end Lu Ling succumbed to these wicked and merciless attacks, rare in human society, and went mad. He was thrown into jail, where he spent two or three decades. After the fall of the "gang of four," he, now a schizophrenic, returned to society, to a small, low, damp, and dark house. There he sat, stupefied, not capable of uttering a word. He found a job cleaning toilets in an alley. Each household gave him one jiao in sanitation fees every month, which was his living expenses. When he found a cigarette butt on the street, he would roll it into a cigarette using a torn newspaper. When you saw him crouching in a corner in the toilet, his clothes ragged and filthy, you would think he looked like a black spider. That a talented writer was tortured into such a state was a rare human tragedy, a sight too horrible to look at. He did not know who he was. When friends went to see him and gave him copies of his own works, he could not recognize them. However, his friends comforted him and tried to nurse him back to health in every possible way. Slowly, his memory returned. His friends told him that he was saved by the Third Plenum, by Deng Xiaoping, and Chen Yun [7115 0061]. He was so moved that, miraculously, he wrote a poem entitled *Deng Xiaoping and Chen Yun Walk on the Street*.

Chen Yong, the killer without a conscience, was not about to spare Lu Ling at this point, still claiming stubbornly that he was right to have criticized Lu Ling. He insisted on including the "Ideological Tendencies of *Children of a Rich Man*" in the *Collection of Literary Papers by Chen Yong*, published in 1984 (by Shanghai Wenyi Chubanshe). (Because the CPC Central Committee then had already put out a document rehabilitating Hu Feng, Chen Yong did not have the nerve to include the two long articles on antirevolutionaries.) Commenting on this book, published by Shanghai Wenyi Chubanshe, a writer said indignantly, "Chen Yong sent others into the depths of hell, yet he wants to erect a monument to his theories. This person and this world of letters are just too evil."

#### **Attacking Qin Zhaoyang and Landing Himself in a Quagmire**

People wonder why Chen Yong, clearly an ultraleftist literary killer, came to be branded as a "rightist" in 1957, but those who understand the conditions in the literary community on the mainland are not puzzled. During the antirightist struggle, 500,000 people were branded as rightists and millions more were affected. It was more than a political struggle. It was also a struggle between factions, all of which tried to settle scores with one another in the name of revolution. Chen Yong was one of those who were toppled by another tough leftist faction in the "tangled warfare" of the antirightist struggle.

Chen Yong was very enthusiastic at the outset of the movement, eager to launch another round of attack after bringing down Lu Ling. His first shot was aimed at Qin Zhaoyang, a writer. Chen Yong is a narrow-minded and insanely jealous person. He hates every one of his peers

who is more talented than himself. At the time, Qin Zhaoyang was advocating "broad pragmatism." But Chen Yong felt that only he himself was qualified to talk about the theory of "pragmatism," not Qin Zhaoyang. So he hurriedly had WENYI BAO publish his article "On Socialist Pragmatism" on 21 April 1951, openly criticizing Qin Zhaoyang and denouncing him for attempting to "abolish the slogan of socialist pragmatism," which meant that he was "wavering in his Marxism." Because of these discoveries by Chen Yong, Qin Zhaoyang was soon denounced as a "rightist." (Later he almost went blind from long years of being tortured.)

Just when he was feeling triumphant, some people at the Literature Institute and WENYI BAO were already targeting this "publicity fiend." His crimes were colluding with Feng Xuefeng, declaring that China was "on the eve of great change," and looking down on "administrative work." They demanded that the party give him "a form of work of the Ai Qing [5337 7230] style." To be sure, there are enough materials to write a book proving that Chen Yong is ultra-leftist, but there is little to suggest he is "rightist." He was hoping to be a hero at the beginning of the "antirightist struggle" and wasted no time in plunging into the fray. But it never occurred to him that instead of capitalizing on the opportunity, he would end up being branded as a "rightist." This was something he was never able to figure out. The campaign was too much of a blow to him. This revolutionary warrior suddenly lost heart. He was sent to a county in Hebei Province to be reformed, where he was arrested for peeping at a woman while she bathed. After word got out, he was sent to a school in a remote border area in Shaanxi Province, returning to Beijing only after the fall of the "gang of four."

#### **Attacking Liu Zaifu While Flaunting the "Red Flag"**

Back in Beijing, Chen Yong had hoped to return to the Literature Institute but was not able to do so for some unknown reason. Later he sought help from Deng Liqun [6772 0500 5028], who made him adviser to the cultural section of the CPC Central Committee Policy Research Office. Deng Liqun admired his "militancy" and treated him like a minister, specially putting him up in the Wanshou Road living quarters for senior cadres run by the CPC Central Organization Department. Thus Chen Yong found himself living next to ministers and provincial party committee secretaries. It was then that Chen Yong divulged his past deeds as a killer.

In 1980, Chen criticized *If I Were Real* (a play) and *In the Social Files* (a movie script). Only then did people recall that this "rightist" was the hatchet man who once persecuted Xiao Yemu, Lu Ling, and Qin Zhaoyang and paid him renewed attention. But they were not on guard against him as yet.

In 1986, just when the nation was enveloped in a good, "tolerant," and "relaxed" atmosphere, Chen Yong suddenly launched an attack in HONGQI magazine, criticizing Liu Zaifu, director of the Literature Institute, and

asserting from the higher plane of principle and the two-line struggle that Liu Zaifu's theory "will affect the future of Marxism and socialism in China." People were shocked (because articles at the time were no longer criticizing from the higher plane of principle and two-line struggle). On the one hand, the cheerleaders of the "gang of four" were elated; it was a shot in the arm for them. Li Xifan [2621 1585 0416], for instance, who had written over 40 letters to Jiang Qing, pledging his allegiance each time, was the first to telephone Chen Yong, saying, "Splendid! Have not seen a Marxist article like this for years." On the other hand, writers both at home and abroad began to worry. To them, this was an ill omen suggesting that there would be constant change on the mainland in the days ahead and that the specter of ultraleftism would continue to devastate the world of letters. It was not long before Chen Yong's article touched off the "Liu Zaifu incident" and "Chen Yong incident," well known at home and abroad.

Bringing down Liu Zaifu was not as easy as doing in Lu Ling, because times have indeed changed. Moreover, Liu Zaifu was free to reply to his charges. But Liu Zaifu seemed to have gone out of his way to pacify him. Reports say he personally visited Chen Yong at home, even after he was criticized by the latter, to invite him to attend two meetings Liu Zaifu was going to chair. Well-informed people in the literary and artistic circles all know that Liu Zaifu had treated Chen Yong very well throughout, having openly mounted a campaign to clear Chen Yong's name when he was still branded a "rightist." After Liu Zaifu became director of the Literature Institute, he hired Chen Yong as a member of its academic committee. Liu Zaifu did not fight back in full force when Chen Yong delivered his latest attack, in hopes that the latter would let the matter drop.

It turned out that Liu Zaifu had been too naive. At the "antibourgeois liberalization" conference in Zhuozhou in 1987, Chen Yong finally declared that the struggle between him and Liu Zaifu was one between "two roads, two lines" and that Liu Zaifu was a "political issue." Quoting Peng Zhen [1756 4176], he said that the notion of "taking class struggle as the key link" could not be repudiated categorically. Chen Yong's speech was reprinted in WENYI BAO, of which he is editor in chief, after 4 June. After reading this article, one realizes that he was dead set on destroying Liu Zaifu from the start. Currently, Liu Zaifu is living in seclusion overseas. He should take a look at this article to understand this fact of life: On the mainland, "humanity" is no match for "barbarity." Of course, Liu Zaifu is much luckier than Hong Yu or Lu Ling. He was not beaten with a "culture" stick. He was not jailed. He was not subject to dictatorship for decades.

At this point, this writer knows that Chen Yong is riding high in the world of letters under Li Peng's regime, that instead of atoning for his old sins, he is committing new ones, that there are social conditions for the longevity of the pack of cultural wolves including Lin Mohan, Chen Yong, and Meng Weizai [1322 0251 0762], that the

so-called "China Cultural United Company" and "Writers Association" on the mainland today are actually "China United Cultural Rascal Company" and "Writer-Rascals Association," respectively. All this I can put up with for the moment. What I cannot put up with is the fact that gifted writers like Lu Ling (for which 100 Chen Yongs are no match) have been abused and ruined forever by Chen Yong and more are being lost in this manner. What a misfortune! What a loss! How tragic! How deplorable!

### Wang Zhen Attends Meeting for Handicapped

OW2007045890 Beijing XINHUA Domestic Service  
in Chinese 1507 GMT 13 Jul 90

[By reporter Chen Yan (7115 7159)]

[Text] Beijing, 13 Jul (XINHUA)—Last year, China scored great success in three types of rehabilitation for the handicapped. At the end of last year, some 240,000 people were cured of cataracts; more than 80,000 orthopedic surgeries on sequelae of polio were performed; and more than 4,700 deaf children had completed training or were undergoing training.

This was mentioned in the work report by Deng Pufang at the sixth council meeting of China's Welfare Foundation for the Handicapped held today.

Deng Pufang, council chairman of China's Welfare Foundation for the Handicapped, said: Welfare foundations for the handicapped have been established in 27 provinces, autonomous regions, and municipalities, as well as in 14 cities with broader decisionmaking powers. In 1989, the total fund collected was 4.76 million yuan. The expenses of 6.32 million yuan were largely used on the three types of rehabilitation programs and special education. Last year, 28 medical teams were organized throughout the country and assigned to the old revolutionary base areas, the minority nationality areas, and the border regions to perform rehabilitative therapy on the handicapped in these localities. The number of various types of special educational schools reached 672, with an annual increase rate of over 20 percent. The number of comprehensive schools with special educational classes rose by 200 percent, reaching 1,885, with over 77,000 students.

Deng Pufang said: The work for the handicapped in China has been commended by the international community. In April of this year, "Handicapped International" unanimously accepted China's Federation of the Handicapped as its full member.

Deng Pufang also pointed out at today's meeting that because of historical factors, the work for China's handicapped still lags behind economic and social progress. Over 90 percent of schoolage children who are blind, deaf, or mentally retarded are unable to attend school. Nearly half of the handicapped with work ability are unable to join the work force. More than four million cataract patients, over one million patients with sequelae

of polio, and over 1.7 million deaf children are hoping for rehabilitative therapy and training. Some 67 percent of the handicapped are leading difficult lives because they are dependent on their families and relatives for support. A social problem that cannot be ignored is how to make the over 50 million handicapped people keep pace with social development and achieve common prosperity with the people throughout the country. Deng Pufang hopes that various circles in society will continue to show support for the handicapped so that their conditions will improve as soon as possible.

Attending the meeting were Wang Zhen, honorary council chairman of China's Welfare Foundation for the Handicapped, and honorary council members Sun Qimeng and Wang Guangying.

### **Ethics Studies To Focus on Social Morality**

*OW2307184890 Beijing XINHUA in English  
1428 GMT 23 Jul 90*

[Text] Changchun, July 23 (XINHUA)—China's ethics studies will be focused on the promotion of social morality in the next few years, a noted Chinese scholar said here today.

The promotion of socialist morality and values, as well as of the sound traditions of the Chinese people are popular topics among social scientists nowadays in China, according to a leading scholar from the Chinese Ethics Society.

China has made great progress in ethics studies over the past decade, he said.

The first department of Marxist ethics was built in 1960 in Beijing's Chinese People's University, but it was soon closed.

Since the university reopened the department in 1979 similar institutions have been set up in over 70 universities in China including Beijing University, the Chinese Academy of Social Sciences and its provincial arms.

Meanwhile, China has established 24 ethics societies at provincial level.

A dozen students have received doctorates in ethics and over 100 have received master's degrees in this subject since 1979, the scholar said.

### **Survey of Women Social Status Planned**

*HK2807035490 Beijing CHINA DAILY in English  
28 Jul 90 p 3*

[By Wang Rong]

[Text] Planning is in the final stages for China's first national sample survey of the social status of women.

Nearly 50,000 questionnaires will be distributed on September 15 to citizens over 18 in 24 provinces.

Conducted by the Women's Study Institution under the All-China Women's Federation and the State Statistical Bureau, the survey is designed to draw an "impartial" picture of women's status.

The survey will use an evaluation scale which relates to the scale fixed by the United Nations and used by Asian and Pacific countries.

"We thus hope to make it comparable with statistics drawn by foreign survey agencies," said Tao Chunfang, chairwoman of the Institution.

Tao said other surveys have ranked China very low. "We do not agree with those conclusions," she said, "because the evaluation scale probably did not take the nature of the Chinese social system and its influence on women's social roles into account."

Failure to take such matters into account could "lead to misinterpretation of the data obtained," Tao said. The forthcoming survey will take them into account.

The multi-layered survey will study eight aspects of women's lives: institutional rights, population and health, education, labour and employment, participation in social and political affairs, marriage and family life, self-integrity and social recognition and living style.

"We take the survey as a first attempt in developing an evaluation scale corresponding to China's social nature," Tao said.

The result of this survey which is to be completed before March 8, 1991, the next International Women's Day, will be collected with other statistics compiled over the past 40 years.

An official of the State Statistical Bureau said the survey was an indication that more attention was being paid to the qualitative and quantitative analysis of women's status.

The government has proposed the establishment of a statistical index system to measure women's conditions considered as part of social development index.

The survey tries to find out the factors initiating the changes in women's social status and the reasons for the changes.

Situations of women in different provinces and different walks of life are also to be compared in the survey.

**Maintenance of Antiaircraft Weapons Stressed**

90CM0279A Nanjing DONGHAI MINBING [EAST SEA MILITIA] in Chinese No 5, 8 May 90 p 8

[Article by Li Shanli (2621 0810 0448) and Tang Jie (0781 2638): "Military District Takes Measures To Strengthen Inspection and Maintenance of Antiaircraft Weapons"]

[Text] In an on-site meeting called in Shanghai to commend the militia for its safekeeping and storage of weapons and its maintenance of antiaircraft weapons, the military district called upon the militia to do a good job of maintaining its antiaircraft equipment in accordance with the principle of "being aggressive yet steady, implementing things step by step, and ensuring quality." This is an important measure for the next three years of maintenance of antiaircraft weapons.

This maintenance program for militia antiaircraft weapons is a measure aimed at improving the completeness of militia weapons, ensuring the combat preparedness of the militia, and guaranteeing the completion of training tasks. This measure was proposed after the weapons of the militia had been locked away for safekeeping for three years. In order to accomplish these goals, the military district has called for the following points to be accomplished:

1. We must work hard to strengthen leadership and tighten up our organization. Party committees and leaders at every level must aggressively make contacts with local governments and large-scale mines and enterprises and obtain their support. Business departments must earnestly take this task in hand. Every work unit must establish a leadership group and a technical inspection and guidance group, strengthen quality control of inspection and maintenance, and correct problems as soon as they are discovered.
2. We must make careful plans, prepare fully, and carry out experiments well. While ensuring the performance of

the militia's combat preparedness and training duties, we must formulate careful plans, make rational arrangements, and prepare in a practical manner for our inspection and maintenance work. We must train teams of maintenance workers and do a good job with experiments. The results of experiments in every work unit must be reported promptly to the military district. The military district plans to hold a training session for cadres in antiaircraft weapons inspection and maintenance in order to unify standards and methods.

3. We must maintain rigorous technical requirements and assure the quality of inspection and maintenance. We must earnestly implement the technical norms of the leadership in headquarters. Lowering standards and arbitrary imposition of personal standards will absolutely not be allowed. We must establish a sound system of responsibility for duties. The division of labor must be clear, responsibility must be placed upon individuals, and we must be ever-vigilant of quality.

4. Military equipment repair centers must fully play their part. Their main task over the next few years will be to do a good job with the inspection and maintenance of antiaircraft weapons. We must rigorously implement the spirit of relevant documents from the General Staff and the General Logistics Department. While resolutely upholding the policy of "the three unchanging things," we must strengthen operational reform and management, expand the scope of our work, and actively serve society.

5. We must implement the system and ensure safety. While carrying out inspection and maintenance of antiaircraft weaponry, we must perfect the system, strengthen on-site and technical management, work to attain safe and smooth completion of tasks, and maintain quality.

Awards were presented at the meeting to work units and individuals that performed in an exemplary fashion their tasks related to the safekeeping of weapons from 1986 to 1989.

## EAST REGION

### Shanghai Formalizes Legal Protection for Juveniles

90CM0242A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 22, 28 May 90  
pp 12-13

[Article by Luo Kangxiong (5012 1660 7160): "Juvenile Protection in Shanghai Gets on Legalized Track"]

[Text] In Shanghai, there are about 1.65 million youths between the ages of 6 and 18, or one-eighth of the total population. On 1 November 1987, the Shanghai Standing Committee of the National People's Congress [NPC] proclaimed the first regional law and regulations in our nation for the protection of youths. Henceforth, such protection is on a legalized track for Shanghai's youth.

### Setting Up the Implementation Machinery To Complete the Protective Measures

The proclamation of such requirements provides for resolution of such problems according to law. If the law is to be obeyed, it must be executed seriously. To go after violators requires machinery that will do so thoroughly. For this reason, Shanghai set up a Youth Protection Committee composed, among others, of members of the Education Department, the municipal Committee on Organizations, the Public Safety Bureau, and so forth, some fifteen in all. Under the leadership of Deputy Mayor Xie Lijuan [6200 7787 1277], an office was created for daily activity. Each district (county level), street (township), and residents committee (village) set up similar standing committees at their level. Initially the city set up a four-tiered youth and juvenile protective network with a cadre force of 28,000 full- and part-time workers. Each tier could investigate, motivate, supervise, coordinate, and receive complaints about violations of youths' lawful rights. At the same time, a series of lectures and discussions were scheduled to raise the standards of cadres in youth protection work.

In the two years since, Shanghai used various means to disseminate the regulations. The office of the Youth Protection Committee successively printed 2.8 million copies of it with explanatory graphs which were distributed to factories, businesses, and schools. The Shanghai Broadcasting Station launched a series of lectures such as "Protecting the Family" and "Youth Self-Protection." Shanghai's television station provided wide coverage by organizing the contents of the regulation into 32 segments for prime-time evening showing. The city's Committee on Organizations sponsored a "Youth Protection Film Month," playing to a cumulative audience of 2.5 million people. The inspector's office of the Changing district Public Safety Bureau sent over 90 experienced officers to middle and elementary schools to provide guidance and complement the rapidly expanding education activities on the regulations at these schools.

The NPC Standing Committee focused on a number of problems revealed in the course of such implementation, organizing inspections and investigations of problems that were discovered, offering opinions, recommendations, and guidance, and nudging government agencies to execute them. In recent years, large quantities of pornographic literature and videotapes had been entering Shanghai's cultural marketplace and corrupting the minds of its youths. Last year, the Standing Committee conducted a special investigation and grimly pointed out the severity of the problem. It caught the municipal government's serious attention and the latter published "Rules for the Administration of Book and Other Publications Markets," "Interim Rules for Dance Halls and Music Houses." More recently, it published an "Interim Rules for Banning Harmful Publications," concurrently setting up bodies at each agency concerned to respond to the requirements and enhance administration of the cultural market.

### Actively Promote Conditions That Will Improve the Environment for Youth Growth

Youth protection is complex work in the social process; it requires both organization and mobilization of all the society's power. In the past two years Shanghai has seen most of its outskirts attain the situation where "the county has a 'youth palace,' a town has a youth home, a village has a youth activities center." Fengxian County and its local garrison jointly set up a "Youth Military Academy" scheduling sessions to let the children learn about activities of the [People's] Liberation Army. Jiading County opened a 300-mu (45.5 acres) social practice base area. The Municipal Children/Youth Coordination Committee organized enriching and varied field trips. The municipal Education Department set up examination points at the 200 middle schools for spring-term classes to enthusiastic acclaim from students, parents, and teachers alike and received approval from national education and birth-control committees.

In order to raise the standards of family youth protection and the quality of parents, the city organized 2,500 parents' schools, hired specialists, scholars, and teachers enthusiastic about youth protection work, and conducted classes based on variations of parental circumstances and cultural levels that focused on their specific situations. Nanshi district's Yuyuan Street, with its comparatively numerous individual residents, organized a "school for individual parents" and, in the past two years, it was attended by over 2,200 such parents. There was a male pupil at Fuyi Elementary School both of whose parents worked and paid scant attention to his schooling. Sometimes they even used him to mind their business so that he became less and less motivated about school. He became a truant and got into fights. After having attended the course, his parents vowed to be more diligent and supervise his education better. Now there are clear indications of change for the better.

### Determined Execution Protects the Legal Rights of Youths

After the regulations were published, large numbers of youths increased their appreciation for self-protection and began to understand how to protect legally their lawful rights. An 11-year-old pupil in Yangpu district who could no longer stand the abusive treatment by his father and his stepmother took legal action at the district court with the support of his teacher. When his father was required to obtain bail and await trial, his attitude changed and their relations improved.

Youth protection agencies at every level have begun to accept litigation actions from youths and parents, providing fairness and justice. In the past two years, the municipal Youth Protection Office alone received over 1,400 pieces of mail queries. When a Shanghai factory worker, a Mr. Cao [2580], was divorced, he forcibly detained a son that the court had awarded to his wife to raise, making the boy miss four months of classes. When the Huangpu district youth protection office sent him a "guidance to obey the law notice," he promptly returned the boy to school on the day he received it.

Early last year, various levels of youth protection offices received letter after letter about teachers physically punishing students. The municipal Youth Protection Office notified the schools concerned that this violated the law. Subsequently, the schools severely criticized the offending teachers. Some received monetary fines or administrative discipline. After a pupil at Luwan District Elementary School hit others, the teacher in charge hauled him up to the rostrum. "All of you whom he had hit, raise your hand!" About 20 did so. "Each of you hit him once!" Then the teacher made the offending boy slap himself 20 times. According to regulations to carry out the ordinance, the district education department stripped the teacher of his supervisory status.

Focusing on school dropouts and incidence of child labor and juvenile merchants in recent years, some counties of Shanghai set up systems to collect data and feedback. Some collaborated with the towns and villages and signed agreements to define responsibilities with the goal of stopping and then reversing the trend. Some, in addition to fining parents of those who refuse to return despite efforts, set down rules to lay off parents from work until such time as their children return to school. At present, 90 percent of the 2,500 dropouts have gone back. Most of the 450 or so child labor and juvenile merchant cases have also been closed.

### Teacher Shortage Foreseen in Anhui Higher Education

90CM0269A Beijing GUANGMING RIBAO in Chinese  
11 Jun 90 p 2

[Article by Xue Changci (5641 2490 6101); "Daunting Challenge and Countermeasures; Report on 'Shortage' of Teachers in Anhui Institutions of Higher Education"]

[Text] The "shortage" of teaching talent at institutions of higher education is becoming more outstanding every day, seriously threatening the future and development of higher education.

According to statistics from 30 institutions of higher education in Anhui Province:

In 1990, the average age of the 193 professors is 60 years old. Only 19 of them are less than 55 years old.

The average age of the 1,343 assistant professors is 54 years old. There are 264 people less than 50 years old. By the end of the century 80 percent will retire.

From 1988 to 1997, professors at institutions of higher education in Anhui will retire at a rate higher than 10 percent.

At Hefei Industrial University, 41 percent of the teachers are more than 50 years old. Only 15.3 percent of them are 40 to 50 years old, which is 13 percent less than normal. A bell diagram of the teachers' age structure shows two high peaks squeezing a low dip.

At China Science and Technology University, one of the key schools nationwide which always has had a rational age structure, they also are feeling the pressing urgency of a talent shortage: By 1998, 427 professors and assistant professors will retire, accounting for 70 percent of the total number in both categories. New teachers attracted in the past 10 years account for only 17 percent of the total.

The shortage of talent has meant that in some subjects there are no replacements to fill vacancies. Faced with this problem, institutions of higher education in Anhui have taken one remedy after another. At present, a common method is to squeeze both ends to help the middle: On the one hand they postpone the retirement of professors and assistant professors while on the other hand they give encouragement to middle-aged and young teachers, enhancing their training and pushing them to mature more rapidly. In evaluating teaching appointments in Anhui, a certain quota is retained. Rules are broken to reward middle-aged and young teachers who are encouraged to stand out.

In order to train middle-aged and young teachers in 1989 Hefei Industrial University inaugurated an educational theory class. At the same time, it launched a "young teacher lecturing competition" to encourage teaching excellence.

In recent years the China Science and Technology University has been active in creating conditions to attract top talent. Nearly 50 doctoral degree candidates were retained at the school, and a mobile post-doctoral program was established. Ten [post-doctorate students] remained and are thinking possible ways to galvanize students studying abroad to return and do their work at the university.



Because macroeconomic policies are out of sync with microeconomic policies, the measures adopted by the schools still cannot fundamentally resolve the issue. From an overall viewpoint, to remedy the shortage we must enhance the ability of institutions of higher education to attract and ferret out top talent. At present, because overall treatment is not as one would like in terms of the profession and areas to which one is assigned, students of the highest caliber do not wish to teach. Young teachers generally are anxious, preparing to escape from "teaching" at any time. It is not within the power of schools to resolve this problem. Reliance on state macroeconomic policy is the only way. In one decade the China Science and Technology University awarded Guo Moruo Fellowships to more than 150 students, less than 10 of whom stayed on. The majority drifted off to coastal areas.

To create an environment in which talent will out, the first thing we must do now is destroy the notion of evaluating [candidates] for a title or position according to seniority and experience. We must encourage people to stand out when evaluating titles, teaching, scientific research, and leadership, and courageously make use of outstanding middle-aged and young people. Presently many leaders in institutions of higher education have the idea that years bring experience, and they place many restrictions on young people. The way out of the talent shortage does not lie in postponing the retirement age. We hope it lies in getting middle-aged and young people quickly established.

The shortage of teaching talent at institutions of higher education is becoming more outstanding every day. This conundrum should be put on the leadership's agenda. Someone responsible for teaching personnel at China Science and Technology University said that the talent shortage may be resolved only by really considering it a problem to be worked on, by annually replenishing doctoral and master's degree candidates, plus top regular college course students and students who have returned from abroad.

## SOUTHWEST REGION

**Book Project on Tibetan Folk Literature Proceeds**  
*OW2207180490 Beijing XINHUA in English*  
1435 GMT 22 Jul 90

[Text] Lhasa, July 22 (XINHUA)—Work on a book featuring Tibetan folk literature is well under way.

The book, a gigantic project, collects parts on Tibetan folk literature from the "Collection of Chinese Folk Stories", "Collection of Chinese Ballads" and "Collection of Chinese Proverbs."

The book is expected to be completed by the end of 1991.

## NORTHEAST REGION

**LILUN YU SHIJIAN Discusses Ideological Issues**

**More Devotion to Communism Urged**

*90CM0199A Shenyang LILUN YU SHIJIAN*  
*[THEORY AND PRACTICE] in Chinese No 7,*  
*5 Apr 90 p 29*

[Article by Li Xingwen (2621 5281 2429): "How We Should Regard the Ideals and Interests of the Communist Party"]

[Text] The great upsurge of the market economy is attacking people's old views, compelling their reflection and exploration. One important question is, how should Communist Party members handle their own ideals and interests? Concerning this question, a significant number of party members and even some party cadres are vague, with many party members at loss as to what to do. This article will discuss some views on this.

The party constitution clearly stipulates that the highest ideal of the party is the realization of communism, and every party member should regard this as his own ultimate goal.

Our party members have faith in communism, because it is truth; it is in accordance with the objective law that the people's will can transform societal development. The party's correct ideals and aims are those of the entire party and each party member. This alone can strengthen the party's internal power to condense; this alone can rally all the people around the party.

The ultimate goal of our party is communism, and in every historical period there has been a clear and specific objective of its struggle. In the period of democratic revolution, our goal was to overthrow the reactionary rule of the three great enemies and establish a New China. In the present phase, our goal is to realize the four modernizations and vigorously develop China. To achieve the four modernizations and to dedicate ourselves to developing China embodies dedication to communism. Every party member must link doing his own job well with the goals of striving for the accomplishment of these objectives of communism's great vision: Achieving the four modernizations and vigorously developing China.

In dealing with theoretical problems, there are various errors which must be corrected. For instance, some people hold the belief that "we are now in the initial stages of socialism; communism lies in the distant future, and we don't know how it will come about." Therefore, "Communist Party members should lower their goals a bit." The source of this erroneous thinking lies in their fundamental knowledge of the party, in their lacking profound comprehension of the history of societal development. We would like to ask them: During the period of the people's revolution, during those years of

difficulties and suffering, our party members believed strongly in communism, and were unsparing of blood or sacrifice in the struggle; now that we are at the initial stages of socialism, could it have been said in the past that communism is even farther from us, and that in struggling for communism we still do not know how it will come about, so party members can lower their standards? Although we are still in the initial stages of socialism, our forces of production, our science and technology and our material standard of living are not as highly developed as capitalism's. There were certain mistakes in our past work, so some setbacks were suffered, and certain unhealthy and even corrupt phenomena existed for a time in the party. However, we cannot waver on communism's ideals and beliefs because of this. Although in the course of reforming, opening up, and developing a socialist commodity economy, many new situations and new problems appear constantly, still the party's nature and historical mission cannot change, nor can party members lower their standards even one iota.

How to handle individual benefits? That is an important problem placed before members of our Communist Party. Every party member has to make an important distinction: A member of the Communist Party is at the same time a member of the party and a member of society, and there should be differing requirements for each of these. One cannot just fulfill the requirements expected of a member of society, and not carry out the even higher requirements expected of a party member. Therefore, on the basis of the standards, conditions, obligations, and rights of party members which were stipulated in the party constitution by the 12th party congress and ratified by the 13th, there was a step forward in stressing that "When party members and nonmembers are compared, all must be working in the people's interests; but the sacrifices made by individual party members must be greater." This demands that every party member, at the same time he assumes the burden of the important functions of commodity producer and competitor and party member, which is to operate according to the value pattern of economic activities and according to party principles.

In values, in morality, every party member should work in the interests of the party, the nation and the people, and should by no means pursue individual gain. This spirit should be advocated among all the people, and be even more evident among party members. Naturally, national policy is to make allocations on the basis of work, and the more one works, the more one gains. This is the remuneration the state and society bestows on every individual, including the recognition and encouragement given to party members for their work. If these party members work only for the nation and its people, they will also have a clear conscience.

However, one's individual benefits, although completely appropriate, are not always sufficient remuneration. Because China's economy is still very backward, there is still no abundance of quality goods, and there is still a

need to struggle arduously, and [so] Communist Party members must make their function evident. In these kind of conditions, development of a commodity economy must frequently encounter clashes between individual, collective, and national benefits; this requires that every party member have a loftier plane of thought, putting the needs of the state before that of the individual, and the individual's needs ahead of his own. If we party members cannot handle the relationships among individual, mass, and national benefits on a day-to-day basis, confusing themselves with ordinary commodity producers and not taking party principles into consideration, if they talk only of money and not of politics, if they talk only of the individual and not of the collective, if they pursue only "material benefits" and forget about the standards for the frontline proletariat, then the Communist Party will turn into a group of businessmen competing for power and cease to exist except in name only. We absolutely cannot allow this to happen.

In brief, development of a commodity economy makes even more strict demands on the entire party. No only must all members of the Communist Party not waver on the great visionary ideals of communism, they must also manifest an even stronger party spirit in dealing with material benefits.

### Policies Must Back Up Goals

90CM0199B Shenyang LILUN YU SHIJIAN  
[THEORY AND PRACTICE] in Chinese No 8,  
15 Apr 90 pp 19-20

[Article by Chen Wei (7115 0251): "Ideological Political Work Must Be Guaranteed by Corresponding Policies"]

[Text] Ten years of reform and "two upheavals" summarize the lessons of our historical experience. In the task of strengthening ideological political work we must renew and refresh the party's political superiority, obtain identical thoughts and actions at all levels, and centrally move forward in making clear the important position ideological political work holds in the policy of the important position of reform and openness, as well as in the "both hands on" policy. Also, each local party committee and government, in positively choosing measures, will strengthen the layers of ideological political work, creating an excellent environment. In this kind of favorable "atmosphere" there still exists a problem that cannot be ignored, namely, the phenomenon of "contrast" between real life and ideological political work. For example: Ideological political work advocates fighting corruption and it stands for politics that are honest and upright, but the reality is there are still some people holding both great and small power whose politics are not so honest, who have been insatiably avaricious. These people are now still on the thrones of their high positions, were not severely punished, and some have even been promoted to higher positions. Ideological political work promotes the concept of rewarding work, but in actuality there are a great many speculators and

others not engaged in honest work who have made fortunes. Ideological political work advocates making "all corners of the land" adhere to making appointments on merit, but in actuality there are some people who practice "those who submit will prosper, and those who resist shall perish." Ideological political work advocates sticking to principles and party spirit, but in actuality there some people who benefit from choosing the mediocre, those who have the "good old boys" philosophy of life. It goes on and on like this. This shows that in spite of all our talk, all our work, all our teaching, and all our actions, these abnormal phenomena still exist. This forces the issue: ideological political work must be guaranteed by corresponding policies. To put it another way, we must be fully aware of and pay attention to the use of policies that guarantee ideological political work, resolving the problem of "contrasts" between real life and the ideological political work which guides it.

### **1. In a Socialist Market Economy, Strengthening Ideological Political Work Requires Compatibility and Coordination Between Policies and Ideological Political Work**

China is currently in the initial stages of socialism, implementing a planned commodity economy. In this situation, in their ideological concepts, their ethical sentiments, and their processes of understanding, people cannot avoid being influenced and restricted by the commodity economy and other developmental models. For example: At the same time that we are energetically developing a socialist commodity economy, there is the possibility that there might appear the ideas of "everything is for money" and "money is god." At the same time we are smashing equalitarianism, the "big iron pot," there could appear the individualistic thinking of caring only about one's own gains and losses, and the employers' attitude of "laboring for the reward." At the same time we are progressively expanding the power of enterprises to act on their own initiative, turning enterprises into socialist commodity producers and managers responsible for their own profits and losses and their own operations, there could appear the tendency toward selfish departmentalism, in which unilateral strengthening of those enterprises' profits and their workers' benefits attacks the overall benefits of the nation. At the same time that we implement opening to the outside and import advanced science and technology, this could also bring in reactionary bourgeois thoughts and lifestyles. In this sort of situation, ideological political work must on the one hand persist in being practical and realistic, and not indulge in empty or big talk, in order to convince people by reasoning, stir their emotions in harmony with reason, and arouse the work enthusiasm of the people, inducing people to use their abilities to the utmost while developing a socialist commodity economy. On the other hand, there must be corresponding policies to guarantee this; without these, reliance solely on ideological political work cannot be completely successful. To put it another way, it demands, under the leading policies of the party and the state, bestowing appropriate spiritual and material rewards on those whose benefits are great and whose

achievements are obvious, on those who have rendered service to the people and devoted themselves to the nation. Those who deserve important rewards should receive important rewards; those who deserve honors should be honored. This is because the policy itself is a banner: It clearly and specifically advocates something, opposes something, establishes something, or abandons something. A current, leading policy that accords with reality is an important component of ideological political work, as well as an effective guarantee of that work. When ideological political work gets away from policy guarantees, its power will not be as strong, nor will it be as lasting.

### **2. Ideological Political Work's Power To Attract and To Persuade Must Also Have Corresponding Policy Guarantees**

Ideological political work is unlike any other work: It has no inflexible quotas nor does it have time limits. It does not directly produce any material products, but it specializes in ideologically educating people and transforming their thinking. This work's attainment of its anticipated goals is wholly reliant upon the enthusiasm of its teachers, and it would be impossible without the corresponding initiative of its learners. Whether these learners have this corresponding initiative depends on the one hand on the party's demand for the learner to take ideological political work; on the other hand, it depends on whether the learner is appropriately encouraged and supported, and whether those who are in opposition are appropriately limited and sanctioned. Otherwise, if the demands of ideological political work in accordance with the party are the same for work which is not in accord, then the former's power to attract and persuade is very difficult to gauge.

Ideological political work by no means ignores other types of work, [or is] heartless and unjust; rather, it guides what people are searching for onto the right path. We must make our ideological political work profound and detailed, and we must, by relevant policies and measures, guarantee that those learning be given appropriate encouragement. Only in this way can those receiving instruction believe in the realistic nature of ideological political work and believe that those working in this field genuinely and sincerely help those receiving instruction and have their interests at heart. In this way, those receiving instruction will on their own apply the demands of the party's ideological political work in their own actions.

Naturally, policy guarantees can only guarantee people rational, regular benefits, not people's irrational demands. There can be no accommodation or allowance for irrational, individual demands. If it were otherwise, it could foster such unhealthy ideological sentiments as individualism. At present, the results of ideological political work in enterprises are still unclear or have not been expanded to where it is consciously accepted by the

workers. There are various reasons for this, one important reason being that the political ideology expressed by the workers is still not linked closely with corresponding policies, nor has it received appropriate guarantees. Take a unit as an example of this. In assessing the varied economic results of enterprises reporting to it, this unit's higher authorities do not link the assessment closely with the unit's political work, so they find it difficult to form in the subordinate enterprises the superiority of the party's political work, and this could even cause the enterprises to consciously or unconsciously deviate from the socialist path. Therefore, ideological political work must have corresponding policies as guarantees and must be organically linked with them. Only in this way can ideological political work be strengthened in its power to attract and persuade.

### **3. To Strengthen the Establishment of Ideological Political Work Contingents and Raise the Enthusiasms of Widespread Political Work Cadres Also Requires Corresponding Policies as Guarantees**

A comrade engaged in ideological political work is like a gardener on a college campus: They are both "builders of the spirit." However, in a previous time, Comrade Zhao Ziyang's lack of attention to ideological political work combined with his unstable policies to create tendencies to discriminatory, stale, ideological political work, and crippled the contingents engaged in this work. If, in the relevant policies, political workers are not given appropriate titles and rewards, new inequities will appear in the social status and allocations given to political workers and those engaged in other professions; political workers' labor will not be recognized and respected, and their personal remuneration will not be appropriately safeguarded. Ideological political workers are educators: They should have a spirit of putting others before themselves, with wholehearted devotion to public duty, not seeking fame and gain. But ideological political workers are also living creatures made of flesh and blood: They have their own interests and needs. If they themselves pay the price and yet, over a long time, "contrasts" appear in their social status and income, it is bound to make political workers feel unequal, creating instability in the ranks of political workers. We must rely on corresponding policies for the resolution of these "contrasts" and instabilities. Therefore, I believe we should formulate corresponding policies that fix the legal status of ideological political work. The legal status of ideological political work is an objective guarantee that ideological political work will develop normally, will relieve political cadres' feelings of instability, and inspire their enthusiasm, a necessary condition for development of their work. It is our heartfelt desire that in the revolution and construction, there will be assurances that over the long term, ideological political work will be continuously and stably brought to its fullest usefulness.

### **Liaoning Collects Folk Literature**

*OW0507030690 Beijing XINHUA in English  
0805 GMT 4 Jul 90*

[Text] Shenyang, July 4 (XINHUA)—Over a six year period, Liaoning Province in northeast China has compiled a 400-million word collection of folk stories, ballads and proverbs from the 44 counties in the province.

Liaoning is the first province to complete the work.

The collection, divided into volumes for each county, is an important project of China's Seventh Five-Year Plan (1986-90), involving more than 30,000 people. More than 300 volumes are scheduled to be published by the end of this century.

### **Liaoning Discusses Guidelines at Forum for Press Circles**

*SK1107083090 Shenyang Liaoning Provincial Service  
in Mandarin 0930 GMT 6 Jul 90*

[Text] On 5-6 July, the Propaganda Department of the provincial party committee held a forum for Liaoning Provincial press circles on implementing the guidelines of the Sixth Plenary Session of the 13th party Central Committee. Relevant comrades of provincial-level press units, some newspaper offices, radio and television stations of cities, and directors of the propaganda departments and press units of various cities, a total of 30 persons, attended the forum.

At the forum, participants exchanged views and experiences on how to implement the decision of the CPC Central Committee on strengthening ties between the party and the masses, enhance the masses' viewpoint on Marxism, make our newspapers and radio and television stations become more tied to the masses, restore and develop the glorious tradition of keeping journalism closely connected with the masses, and strengthen the self-development of press contingents. Zhang Xilin, deputy director of the propaganda department of the provincial party committee, gave a concluding speech. He said: Implementing the guidelines of the Sixth Plenary Session of the 13th party Central Committee on journalism is necessary if newspapers are to serve as mouthpieces of the party and the people, uphold the unity of the party spirit and the press' affinity to the people, and realistically display its role as a bridge between the party and the masses. It is also necessary to restore and promote the party's fine traditions in journalism, strengthen the development of press contingents and enhance the ability of press circles to withstand political disturbances, foster a correct world view and outlook on life, do a better job in press reform, and enhance the appeal of newspapers and radio and television broadcasting. He called on press units to realistically strengthen their leadership and consider the imple

mentation of the guidelines of the Sixth Plenary Session of the 13th party Central Committee as their major task. He also urged them to formulate plans, turn the implementation of guidelines into a system and implement them in places where needed. Press editors and reporters should go deeply among the masses and grassroots and plunge into the thick of life to collect information on the

spot, see with their own eyes, and [words indistinct]. At present, in addition to implementing the guidelines of the Sixth Plenary Session of the 13th party Central Committee, press units should also combine publicity of the Asian Games, the province's general campaign on industrial production, and the greeting of the seventh provincial party congress.

### Details of Taiwan-PRC Direct Red Cross Cooperation

HK2706062590 Beijing ZHONGGUO XINWEN SHE  
in Chinese 23 Jun 90

[Report by Tian Di [3944 0966]: "Qu Zhe on the First Talk Between Red Cross Societies on Both Sides of the Straits on Direct Contact"]

[Text] Beijing, 23 Jun (ZHONGGUO XINWEN SHE)—Qu Zhe, deputy secretary general of the Chinese Red Cross Society confirmed to our reporter that officials of the Chinese Red Cross Society and the Taiwan Red Cross Society had recently exchanged views and looked into five problems in establishing direct links between the two sides of the strait and had reached a tacit agreement and understanding. But he clarified the fact that no written agreement or resolution has yet been reached.

Qu Zhe said in the interview by our reporter that on 4 June, Chairman of the Taiwan Red Cross Society Mr. Hsu Heng conducted frank and friendly talks with officials of the Chinese Red Cross Society whom he was visiting in Beijing at their invitation. The five problems discussed were: In the future, searches for individuals will be carried out through direct contact between the Red Cross societies on both sides of the strait; the Red Cross societies on both sides of the straits will render assistance to persons suffering injury, disease, death, or whose travel documents are expired; with respect to fishermen along the coast who encounter danger, difficulty or problems, both sides will assist in negotiations, exchange of information, and legal problems according to law; with respect to inheritance, the notarization departments of the locality where the mainland successor lives will issue documents of notarization, which will be certified and sealed by the Red Cross society, and these documents will be recognized on the Taiwan side; The Taiwan Red Cross Society will supply a list of Taiwan lawyers who can be entrusted by the mainland successor to handle the inheritance; and issues connected with bilateral exchanges.

He added: With respect to the third problem on fishermen along the coasts, officials of the Chinese Red Cross Society have pointed out that, at present, some fishermen along the coast do business, but some are involved in illegal entry and smuggling. The Chinese government has consistently opposed illegal entry and smuggling and has educated mainland fishermen to engage in legitimate fishing and business. The Taiwan authorities have drawn a so-called demarcation line in the sea in the area of Taiwan Penghu, Jinmen, and Mazu. When mainland fishing boats trespass the border, whatever because of equipment malfunction, storms or poor visibility, the Taiwan military has resorted to firing at and bombarding them. In 1989 alone, the military garrison of the Taiwan authorities stationed in the Jinmen

and Mazu areas had a record of over 400 incidents of firing at and bombarding mainland fishing boats, with 10 fishermen shot dead and 21 wounded. The number of fishing boats and fishermen from Fujian Province alone that are still detained by Taiwan is 54 and 975 respectively. After confiscating mainland fishing boats, fishing gear, and property, Taiwan military authorities have squeezed the fishermen in a boat and sent them back. There are still 14 people who have not yet been released. During detainment, some fishermen were beaten and received physical punishment. We hope that the Taiwan authorities will give the mainland fishermen humanitarian treatment and refrain from firing at or bombarding the boats upon sighting them, or detaining their vessels, and confiscating property and tools. We also hope that the Taiwan Red Cross Society will relay the message to the Taiwan authorities and military to protect the lives and property of mainland fishermen and enhance the peaceful atmosphere on both sides of the straits.

He continued: The mainland coast has already been opened up to Taiwan fishing boats, and Taiwan fishermen have been allowed to come ashore. But, the Taiwan side is going too far by opening fire, bombarding, and detaining people. Certainly, incidents violating the law of the other side, such as smuggling, should be dealt with according to the law. The Red Cross societies of both sides will, in the future, discuss the possibility of direct links and helping each other in matters or negotiations. Taiwanese fishermen rescued by mainland authorities used to be returned through the East Regional Office of the Hong Kong International Red Cross Society, which is very inconvenient. The Chinese Red Cross Society has proposed this time that the Taiwan Red Cross Society pick up their people directly in Xiamen and set up a Red Cross society at Jinmen to facilitate the return and transfer of people from the mainland Red Cross societies. If it is really impossible to do so, both sides can hand over and take custody of people at sea. The Taiwan Red Cross Society has indicated that it would pursue the matter after returning to Taiwan. But, before the establishment of the Jinmen Red Cross Society, the work of transferring people should still be conducted through the East Regional Office of the Hong Kong International Red Cross Society.

In conclusion, Qu Zhe said that although Mr. Hsu Heng had come on his behalf, this meeting was, after all, the first direct contact between the Red Cross societies on both sides of the straits after 40 years, with the contact between the Red Cross societies on both sides of the straits having developed from being indirect to direct, which is a very great breakthrough. Both sides have, through the exchange of ideas, deepened their understanding and enhanced mutual understanding and trust, which will benefit their cooperation. We expect that bilateral communication and exchanges can be achieved in the future.

### Dealing With Trade Deficits Against Japan

90CE0312A Taipei CHING-CHI JIH-PAO in Chinese  
30 Jul 90 p 2

[Editorial: "Dealing With the Problem of the Unfavorable Trade Balance With Japan Must Be Done in an Objective and Reasonable Way"]

[Text] While the trade surplus with the United States has come down in recent years, the trade deficit with Japan has been continuously on the increase, this year reaching even as high as \$8 billion, a matter of great concern for the whole nation. At his first press conference after his inauguration last month (May), President Lee pointed out that Japan does not give due attention to the Republic of China [ROC], making it impossible to come to a proper mutual understanding on matters. Japan has, furthermore, abruptly and one-sidedly cancelled the arrangement whereby Taiwan travelers had 72 hours free of visa requirements when passing through Japan. Taiwan's representative in Japan has expressed his strong dissatisfaction in this matter and threatened to resign. At the East Asian Economic Conference held in Taipei this month (June), Chiang Nei-kun [3068 0355 0981], vice minister of economic affairs, scathingly denounced the Japanese Government as stricken with "Communist China craze." The Ministry of Economic Affairs also announced a few days ago that if Japan continues to ignore the problem of the constantly worsening unfavorable balance in the ROC-Japan trade relation, the Ministry of Economic Affairs will initiate "administrative guidance" to reduce the Japanese trade deficit and will adopt measures to reduce the personnel occupied in Japanese-run enterprises in Taiwan. Taiwan's maritime customs has decided to be very strict as from 1 July in the examination and assessment of goods imported from Japan. All this indicates that Taiwanese feel a gradually increasing resentment against Japan. Last week, in its "Report on Public Sentiment," given at the meeting of the Executive Yuan, the Information Bureau pointed out the seriousness of this problem. Premier Hau Pei-tsun [6787 2672 2625] gave it his earnest attention and directed on the spot that the settlement of the problem of Taiwan's unfavorable trade balance with Japan must take the country's interests as a whole into consideration, and that any response must be rational and not emotional. This directive by Premier Hau correctly pointed to the crucial aspect of the problem of Taiwan's unfavorable trade balance with Japan. We must coolly assess whether Taiwan's year after year increase in the trade deficit with Japan is due to increases in imports under Japanese pressure, or whether there is any necessity for it? As to the declining increases in exports to Japan, there are of course many obstacles put up by Japan against nontariff trade, but since there is actually a decline in Japan's surplus trade balance in the last three years, could this be due to Taiwan's ineffectual way of developing exports to Japan? It seems that these problems have not been objectively explored by the authorities in charge, and that no earnest efforts have ever been made in this respect; idle theorizing will not help matters.

Sentimentalization and unrealistic methods might be temporarily gratifying, but if no fundamental improvements are made, the problem will never be solved. Still remember, in March of 1982, when Chao Yao-tung [6392 5069 2639], minister of economics, one night abruptly stopped importation of over 1,500 items of Japanese goods, Japan indeed soon afterwards despatched the Esaki delegation to Taiwan to reestablish good relations and to show sincerity by large-scale purchases, so as to cheer us up for a time. However, all purchases of the Esaki delegation were actually nothing else but purchases in one sweep what originally had anyhow been destined for export to Japan. It was the same as with Taiwan's purchasing delegations that go to the United States every year and that do nothing else but give the other party some psychological comfort. Later, however, it was found out that Taiwan's exports to Japan in 1982 not only did not increase as a result of the Taiwan-trip of the Esaki delegation, but even declined 3.5 percent. In 1983, exports also increased only 4.6 percent; all these figures were below the rate of Taiwan's overall export increases. Apart from assuaging somewhat the resentment among Taiwanese, the said action was not only of no actual help to alleviate the unfavorable trade balance with Japan, but also had Taiwan ridiculed as acting irrationally in international trade. Let this be a warning.

The annual increase in Taiwan's unfavorable trade balance with Japan is related to the structure of Taiwan's industrial production. Among the goods imported from Japan, over 80 percent, and even up to 90 percent, are machinery equipment, spare parts, components, and industrial raw and semifinished materials. Although imports from Japan of consumer goods are increasing in recent years, they make up an extremely small proportion. Taiwan relies very much on the importation from Japan of machinery equipment, spare parts, components, and of raw and semifinished materials mainly because Taiwan's technology is backward; this brings about Taiwan's reliance on Japan, and also the reason that most Japanese products are more competitive than goods from Europe and the United States. Many Taiwanese enterprises have instituted technological cooperation with Japan, and because of their technological cooperation with Japan, they naturally import machinery equipment, spare parts, components, and raw and semifinished materials from Japan, although their products will predominantly be exported to the United States. Japanese enterprises with investments in Taiwan appear to be outwardly only one-third of all foreign investments in Taiwan, but there are many more Japanese manufacturers that have invested in Taiwan without going through the regular channels controlled by the ministry of economic affairs, and this type of Japanese enterprises with investments in Taiwan either capture the domestic market or export to the United States. Their operations are different from those of American manufacturers who have invested abroad and whose products are sold back to the United States. U.S. investments in Taiwan result in a favorable trade balance with



the United States, but Japanese investments in Taiwan create an unfavorable trade balance with Japan and a surplus in relation to the United States. In this triangular relation between Taiwan, the United States, and Japan every increase in exports results in a larger trade surplus with the United States and a larger trade deficit with Japan. Even the industrial products exported to the United States contain at least 30 to 50 percent parts, components, raw and semifinished materials imported from Japan, and for depreciation of equipment imported from Japan, Taiwan also constitutes entrepot. It is for this reason that within Taiwan's surplus with the United States a large proportion is made up by Japanese products exported by Taiwan on behalf of Japan, and Taiwan thereby also suffers on behalf of Japan all pressures emanating from the United States. As long as the structure of production is not improved, it is useless to talk glibly about reducing the unfavorable trade balance with Japan.

The increase in Taiwan's trade deficit with Japan, referred to in the above, is possibly due to an insufficient effort on the part of Taiwan. This is made evident by an analysis of Japan's trade statistics for the last four years. After Japan's peak trade surplus of \$82.7 billion in 1986, it gradually declined year after year, last year (1989) declining to \$64.3 billion, while Taiwan's trade deficit with Japan, according to Japanese statistics, doubled during the same period, namely from \$3.2 billion to over \$6.4 billion. Looking at the Korean trade deficit with Japan we see that it declined from \$5.2 billion to \$3.6 billion, a decline that is even larger than the decline in Japan's overall trade surplus. Is the large decline in Korea's trade deficit with Japan due to fewer imports from Japan? Not at all; during the 3 years, Korean imports from Japan still rose 58 percent, but Korea's sales to Japan increased at the rate of 146 percent. The

method employed by Korea is what we have repeatedly advocated; reduction of the trade deficit with Japan is not limited to the one method of reducing imports, but energetic efforts must rather be made in the development of exports to Japan. However, in the last three years, Taiwan increased exports to Japan by only 88 percent, which is only 60 percent of Korea's increase of exports to Japan, while Taiwan's imports from Japan increased 96 percent, which not only exceeds two-thirds of Korea's imports from Japan, but is also higher than the rate of Taiwan's increases of exports to Japan. How could this not result in further increases in the trade deficit?

Improvement in Korea's trade deficit with Japan is due to Korea's effective implementation in 1987 of its "Five-Year Plan for Improving the Trade Deficit with Japan," a measure that produced marked results within only two years. Taiwan's President Lee called a national development conference in August of 1988, and according to the bulletin of that conference, directed that well-planned action be taken to improve the trade deficit with Japan. In November of the same year, the Executive Yuan approved an "Outline Plan for the Enhancement of Economic Relations and Trade with Japan," worked out by the Ministry of Economic Affairs, but now, after two years, not only has the trade deficit with Japan not been reduced, but it has even grown larger. Why was it that Korea, after it had decided on its plan, could earnestly and thoroughly implement it, and why was it that Taiwan could not? It is truly necessary that Premier Hau order the authorities in charge to engage in a rational and objective exploration of the subject. The plan that had been decided upon must be implemented earnestly, thoroughly, and effectively, as otherwise not only will the problem of Taiwan's trade deficit with Japan prove completely unsolvable, but any improvement of the situation will become quite impossible.

**Beijing Reaction to British 'Right-of-Abode' Plan**  
*90CM0273A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 216, 16 May 90 pp 60-61*

[Article by Lin Pei-shan (2651 3805 3790): "China, Firmly Opposed to the Granting of Right of Abode in the United Kingdom, To Take Appropriate Countermeasures"]

**[Text] Continuous Appeasement of China**

Recently, two ship-related events have occurred in Hong Kong that strained relations between China and Hong Kong; both were concluded by concessions made by the Hong Kong government to avoid trouble.

The Chinese Government had charged that the "Goddess of Democracy" [dissidents' ship] intended to enter Hong Kong territorial waters to broadcast subversive news, whereupon the governor of Hong Kong publicly issued orders strictly refusing the ship's entry into Hong Kong, in order to prevent, as he said, Hong Kong from becoming a political battlefield. The other case was that of two marine police officers, who, when investigating a suspected smuggling operation, were abducted to the mainland by Chinese security officials. The Hong Kong government lodged a strong protest, but the Chinese authorities charged the Hong Kong government of distorting the facts, and the Hong Kong government, at its highest level, yielded by proposing some low-key settlement, for fear that the incident could harm the relations between China and Hong Kong.

The recent continuous appeasement of China by the Hong Kong government must be ascribed, as high members of the Hong Kong government say, to consideration of the importance of economic and political cooperation, as well as to hopes of resuming high-level group exchanges. However, improvement of China-Hong Kong relations, apart from the boost it received in the above-mentioned odd incidents, unfortunately cannot register advances in the more serious disagreements between China and Britain, namely in the matter of granting rights of abode in Britain and the countermeasures that this evoked from the Chinese Government to eradicate British rule in Hong Kong. In this respect, China-Hong Kong relations, which have been strained for several years, could not be relaxed.

High-ranking officials of the Hong Kong government have indicated that they will definitely not retract their offer of the right of abode in Britain for a quota of 50,000 families, as an extremely important minimal residual measure for the benefit of Hong Kong's elite. The quota of 50,000 households was not willingly granted by Britain; it was only because of the 4 June incident and pressures from Hong Kong residents, that Britain, to compensate for its mistakes, proposed to grant the status of British citizens to 50,000 households.

China, however, vehemently criticized and attacked the granting of the right of abode in Britain, for the reason that it would introduce a divisiveness into Hong Kong,

accelerate the exodus of skilled personnel, and, more seriously, perpetuate British rule over Hong Kong beyond 1997.

Besides making these extremely serious accusations, China intimated that it will take countermeasures against the granting of rights of abode in Britain. As the objective of its countermeasures, China intends to spur the people of Hong Kong toward greater solidarity, urge skilled personnel to remain in Hong Kong, and thoroughly eradicate any arrangements on the political, diplomatic, and personnel level that would allow "British rule over Hong Kong." And it will also organize a group of people to rule Hong Kong who are imbued with patriotism for China and for Hong Kong.

In line with these idealistic motivations, high-level Chinese authorities have initially set forth three tasks to be undertaken in Hong Kong. When he met early this month in Beijing with trade union delegates from Hong Kong and Macao, Ji Pengfei, director of the Hong Kong and Macao Affairs Office of the State Council of China, proposed accomplishment of these three tasks: First, an energetic propagandizing of the Basic Law. Although the administration during the transitional period will be British, to be able to effectively implement the Basic Law in 1997 still requires that much work be done now. The Basic Law affects the personal interests of all Hong Kong compatriots, and the way it will have an effect on personal interests must be made quite clear. Second, active participation in the 1991 direct election to the Legislative Council. Third, ensure that in 1997 a leadership group of people from Hong Kong, not a government by British nationals, will administer the Special Administrative Region [SAR]. Most civil servants will be kept on, but since it will after all be a new leadership structure, the selection of persons for leading positions must be carefully considered.

The leftist organizations of Hong Kong will of course make every effort to accomplish the three tasks which Ji Pengfei had set forth, and it is expected that Zhou Nan [0719 0589], the newly appointed head of the Hong Kong branch of the XINHUA SHE, will devote most of his energy to these tasks.

**Contacting Various Social Organizations, Zhou Nan Curries Favor With the Public**

During the period of somewhat over one month, Zhou Nan has met with the heads of the local labor unions, chambers of commerce, of educational institutions, of special trades, and of district boards, and has also called on the Federation of Trade Unions, the Rural Council, and the Urban Council. He also intends to meet with the leaders of all regions and territories within Hong Kong. Furthermore, he took the initiative of inviting democratically inclined organizations, which he believes can be won over, to come to talk with him.

Zhou Nan particularly contacted basic-level organizations, because they are most unlikely to receive any of the rights of abode in Britain and will be the future

mainstay of Hong Kong society. At all these organizations Zhou Nan energetically advocated that they take part in the spread of information and propagation of the Basic Law. He also urged persons imbued with patriotism for China and for Hong Kong to start participating in various types of administrative work, and he never failed to add a good measure of flattery. For instance, at the Federation of Trade Unions he said, "The large contingent of Hong Kong workers have a most glorious tradition; in the struggle against imperialist aggression, for the protection of the legitimate interests of the workers, and in the struggle in support of revolution and construction of the motherland, they have written innumerable sorrowful and glorious chapters." To the audience at the Rural Council he praised, "Residents of the New Territory have a long historical tradition of patriotism and opposition to imperialism."

Zhou Nan humbled himself by going to all these social organizations; however, were one to say that all of Zhou Nan's activities have succeeded in getting a team together for the future administration of Hong Kong, it would really be overestimating the success of his performance. Many of the organizations and personalities contacted at this time by Zhou Nan had broken with China when the 4 June incident occurred. Although many were personally well aware of current affairs, they avoided referring to the 4 June incident, but what could not be avoided was reference to such problems as the confidence among the people of Hong Kong, the exodus of skilled personnel, and the granting of rights of abode in Britain, all questions that the Chinese side was loath to hear about. It is said that, during his contacts with these groups, Zhou Nan was very firm in his opposition to the granting of rights of abode in Britain and to any bill of rights, and that it was impossible for both sides to enter into a deeper exchange of opinions on these questions. In addition, these people were still very sensitive about the 4 June incident, and, although they felt the need for new contacts with China, these contacts could not possibly revert to the friendliness of former times.

Apart from Zhou Nan energetically peddling the Basic Law, leftist organs, such as WEN WEI PO, held interviews with well-known Hong Kong personalities, began running a special column, "Everyone's Opinion on the Basic Law," and such partisan organizations as the Federation of Social Groups of the New Territory and the Federation of Trade Unions indicated their intention of holding study classes; similar responses came from district board delegates sympathetic toward China. The reasons for China to propagate the Basic Law were, on the one hand, to let the people of Hong Kong know what they should and what they should not do before 1997 so as to conform to the demands of the Basic Law, and, on the other hand, to gain the attention and acceptance of the people of Hong Kong, so that they will not regard the Basic Law as immaterial and also hope that through acquaintance with the Basic Law they will come to accept it.

Actually, a group of pro-PRC sympathizers, anticipating the social mode of the future, intends to organize, every year on 30 June or 1 July, activities to propagate reunification, to promote acceptance among the Hong Kong people of the SAR government after 1997, and to affirm solidarity with people in Hong Kong who would be qualified to administer Hong Kong; these activities, therefore, in their motivation are identical with the motivation that prompts the propagation of the Basic Law.

Unfortunately, Hong Kong people in general do not regard the Basic Law as a document that is difficult to comprehend, but rather as a mere scrap of paper. In view of China's "rule by men" and the changing interpretations of laws and regulations, acceptance of the Basic Law amounts to acceptance of the present regime of China, and it also touches on the wounds inflicted by the 4 June incident, and China's attempts to propagate the Basic Law finds no market among the people of Hong Kong.

#### **Destroying Confidence Among Hong Kong Residents in the Value of the Right of Abode in Britain**

As to participation in the 1991 direct elections, the Federation of Labor Unions has already indicated that it will indeed energetically participate, and leftist regional organizations have made their dispositions in this respect. However, not many leftists can be elected; and, as for obtaining friendly support, financial assistance, and leftist votes, it is not certain whether taking on a Leftist label would be an asset or a liability in the general quest for votes.

Successful accomplishment of the three tasks that Ji Pengfei had set forth may be possible only after a protracted period of time, but numerous difficulties will be encountered. It is, of course, not only by these three undertakings that China intends to fight the granting of the right of abode in Britain; they are only the initial actions that will be taken. Actual countermeasures against the granting of the right of abode in Britain could essentially be divided into two categories: One is a frontal attack against the eagerness of Hong Kong residents to get the right of abode in Britain, and the other type is measures to deflate the value of the right of abode in Britain. The three tasks proposed by Ji Pengfei may be said to be a part of the latter type of measure.

With regard to dampening the eagerness of Hong Kong residents to obtain British residence rights, there are the restrictive rules laid down in the Basic Law, which preclude holders of the right of abode in Britain from becoming senior officials, from holding important government positions, and from membership in the Legislative Council. Moreover, Li Hou [2621 0683], deputy director of the Hong Kong and Macao Affairs Office, had already proclaimed that China will not recognize the right of abode in Britain obtained by Hong Kong residents. These people will then not enjoy consular protection from the British authorities, nor will they be able to

enter or exit Hong Kong on the strength of these documents. Since holders of the right of abode in Britain will have passports as British citizens, China may require all holders of foreign passports to report how their passports had been obtained in order to ferret out those who have obtained the status of British nationals by the said scheme of being granted right of abode in Britain.

Li Hou wanted to convey that holding the right of abode in Britain will not bring any benefits. Recently it was further intimated that China is studying measures that not only will leave holders of the right of abode in Britain without benefits, but will also have them even suffer disadvantages, namely, by being deprived of political rights and other rights to social welfare.

According to the provisions of the Basic Law, persons having resided in Hong Kong for seven years or more, whether Chinese citizens or not of Chinese nationality (the Chinese authorities may define them as foreigners), may apply to become permanent residents of Hong Kong. However, all holders of the right of abode in Britain will be deprived of Chinese citizenship. This contradicts the threat made by Li Hou, because after these persons lose their Chinese citizenship, they will be fully able to enjoy foreign consular protection, and some holders of the right of abode in Britain will possibly welcome this measure. Besides, according to the provisions of the Sino-British Joint Declaration, all persons who have resided in Hong Kong for seven years or more as permanent residents of Hong Kong will become "permanent residents" of Hong Kong; there is a discrepancy here between the Basic Law and the Joint Declaration.

It has been learned that China also wonders whether it could send the Hong Kong Government a list of names, with the demand that persons on the list not be granted the right of abode in Britain, so as to keep them in Hong Kong. However, persons considered qualified for the right of abode in Britain would most probably be able to apply for immigration to other countries too, so that even denial of the right of abode in Britain by the British authorities might not keep them in Hong Kong.

#### **Deflating the Attractiveness of the Right of Abode in Britain**

The Chinese Government and pro-PRC Chinese have also put forward many methods that might be employed to deflate the attractiveness of the right to abode in Britain.

First of all, in due time there will be a great change in personnel with the formation of the SAR government. In the structural composition of the executive, judicial, and independent administrative bureaus, department heads and senior officials, and officials who will take over such leading positions will all have to be trustworthy persons. Ji Pengfei has proclaimed that after 1997 most civil servants will be allowed to remain in their positions. The mentioned leadership positions and positions of the second and third echelons make up perhaps only 1,000

or 2,000 persons, not even one percent of the 200,000 total civil-servant structure, but the impact of the changes in these positions is possibly severe enough to have an adverse effect for quite some time on the operation and efficiency of the SAR government. However, some high-ranking officials of the Hong Kong government believe that between loyalty in the core of the government and administrative efficiency, the Chinese authorities will choose the former.

Another method would be to demand that from now on the Hong Kong government defer to the opinion of the Chinese Government when it appoints people from the general public to join the important Consultative Council or when it promotes persons to important official positions. Chinese officials have already put forth the idea that the Hong Kong government consult with the Chinese authorities about the appointment of high-ranking officials even before 1997 so as to ensure a smooth transition toward 1997.

The question is whether the Hong Kong government will follow suggestions by the Chinese authorities and allow persons acceptable to the Chinese Government to participate in the actual work of administering Hong Kong. The answer of one high-ranking official in the Hong Kong government is that it is the natural trend to bring into the Consultative Council many more persons of different factions.

Another measure would be to bring in Chinese students who have studied in the United States to work in Hong Kong. At the end of 1988, China abolished the rule that Chinese state-sponsored students from overseas must first return to China before going to Hong Kong. However, the Hong Kong government will only allow Chinese state-sponsored students from overseas to work at XINHUA SHE or at PRC-financed organizations in Hong Kong. If they intend to be employed in private organizations, they would have to first return to China and will only be allowed to come to Hong Kong to work if they obtain a one-way travel permit.

Actually, work at PRC-financed organizations or in PRC offices in Hong Kong is not at all attractive for Chinese students returning from the United States, because, first, salaries are low and, second, they could follow careers in the United States. If they still would insist on working in a PRC-financed enterprise in Hong Kong, they would have less prospects in their careers than if they were to return to work in China. At the beginning of last year, Hua Run [5478 3387] went to the United States and tried to enlist this type of student, but the response was extremely poor.

In the wake of the 4 June incident, foreign countries have extended the permissible stay of Chinese students, and it is a big question how many of them will want to return to China or come to Hong Kong. The attraction for them would be greater if the Hong Kong government were to

relax its restrictions on their working in private enterprises, but the Hong Kong government is not willing to relax this rule.

For the Chinese Government to arrange for 1,000 to 2,000 students from the United States to come to Hong Kong for training so that they could take over in 1997 is not an easy matter.

Another method would be for China to train its own skilled personnel to take over in due course. Just as we have mentioned earlier, Zhou Nan is now restoring contacts with various local organizations, trying to turn them into a leadership body for the administration of Hong Kong for the Chinese Government, but this cannot be accomplished within a short time.

### **China's Lack of Confidence in Itself and in the People of Hong Kong**

In the matter of the right of abode in Britain, the Chinese Government thinks of the worst scenario possible, namely that all those who obtain the right of abode in Britain will immediately turn into British spies or compromadores, and will be subservient only to the British, a way of thinking which manifests a lack of confidence in itself and in the people of Hong Kong.

Tseng Yin-chuan [2582 5593 2938], chief of the Administrative Office, once said that if China were to become democratic, free, prosperous, and strong after 1997, who knows, maybe Hong Kong people would line up in Victoria Park to burn their permits for abode in Britain.

On the other hand, Zhou Nan displayed an apprehensive attitude as he actually warned the people of Hong Kong in his speech at a 1 May cocktail party, "One country and two systems is having two systems under the premise of being one country. If it is said that there will be no changes, it does not mean that there will be no changes in only one respect, but that there will be no changes in both respects. If we want to ensure that the state of things in Hong Kong will not change for the next 50 years, it means that we also do not want to change the socialist system in Mainland China." Implied in his speech is the fear that the people of Hong Kong might induce a change in the socialism on the mainland.

However, if Zhou Nan would look at it more realistically, there are, apart from recent indications by high-ranking officials of the Hong Kong government that they want to mend relations, the much more undisguised expressions by the chief delegate of the Legislative Council, Li Peng-fei [2621 7720 7378]. Not only had he soundly abused China a few months ago, but he also publicly stated that the two councils would want to

establish a new relationship with China, that they want to dispatch a team to Beijing to establish contact, and in recent days even declared that the democratic parties of Hong Kong will also want to establish contact with the Chinese Government, because otherwise there would be no place for them after 1997. Li Chu-ming [2621 2691 6900], vice chairman of the Hong Kong branch of the Federation of Labor and chairman of the Democratic League, the first political party of the democratic faction in Hong Kong, also proclaimed that they would not involve themselves in Chinese affairs, that they recognize the present Chinese regime, and that they try to find ways to have contacts with it. Other politicians who are eager to curry favor with the powerful have already shown their attitude of forgetting what happened on 4 June and of welcoming the PRC authorities.

The people of Hong Kong are realists. After 1985, the people of Hong Kong had accepted the authoritatively designated persons as the future leaders of Hong Kong; it was only due to the 4 June incident that pro-PRC persons became "rats crossing the road" [public enemies], but the antagonism against pro-PRC persons is now receding, and the closer we come to 1997, the more the people of Hong Kong accept the realities.

Unfortunately, the one that shows the least confidence in this trend is the Chinese Government, which now insists on instituting a variety of measures against those who will obtain the right of abode in Britain in order to eliminate what they refer to as British rule over Hong Kong. If the Chinese Government will really proclaim that it will withdraw permanent Hong Kong residency from persons who have been granted the right of abode in Britain, if it will import a large number of Chinese students from abroad to become the new administrative body for Hong Kong, then ask yourself: What will be the feelings of the people of Hong Kong as mere "onlookers"? Since there are only an extremely small number who are opposed to the British and only an extremely small number who are pro-British, the overwhelming number will become "onlookers from the sideline." They are reluctant to relinquish life in Hong Kong, afraid of discrimination in foreign countries. However, seeing the way the Chinese Government is taking over political command and will persecute one category of "Hong Kong people" in the style of the Cultural Revolution, what will their feelings be? Their elders secretly fled to Hong Kong in quest of a more secure and prosperous life; how can we not be sure that these people will now themselves for the same reason try legally or illegally to get out of Hong Kong? The Chinese Government should really ponder what price will have to be paid for taking the intended countermeasures against holders of the right of abode in Britain?

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